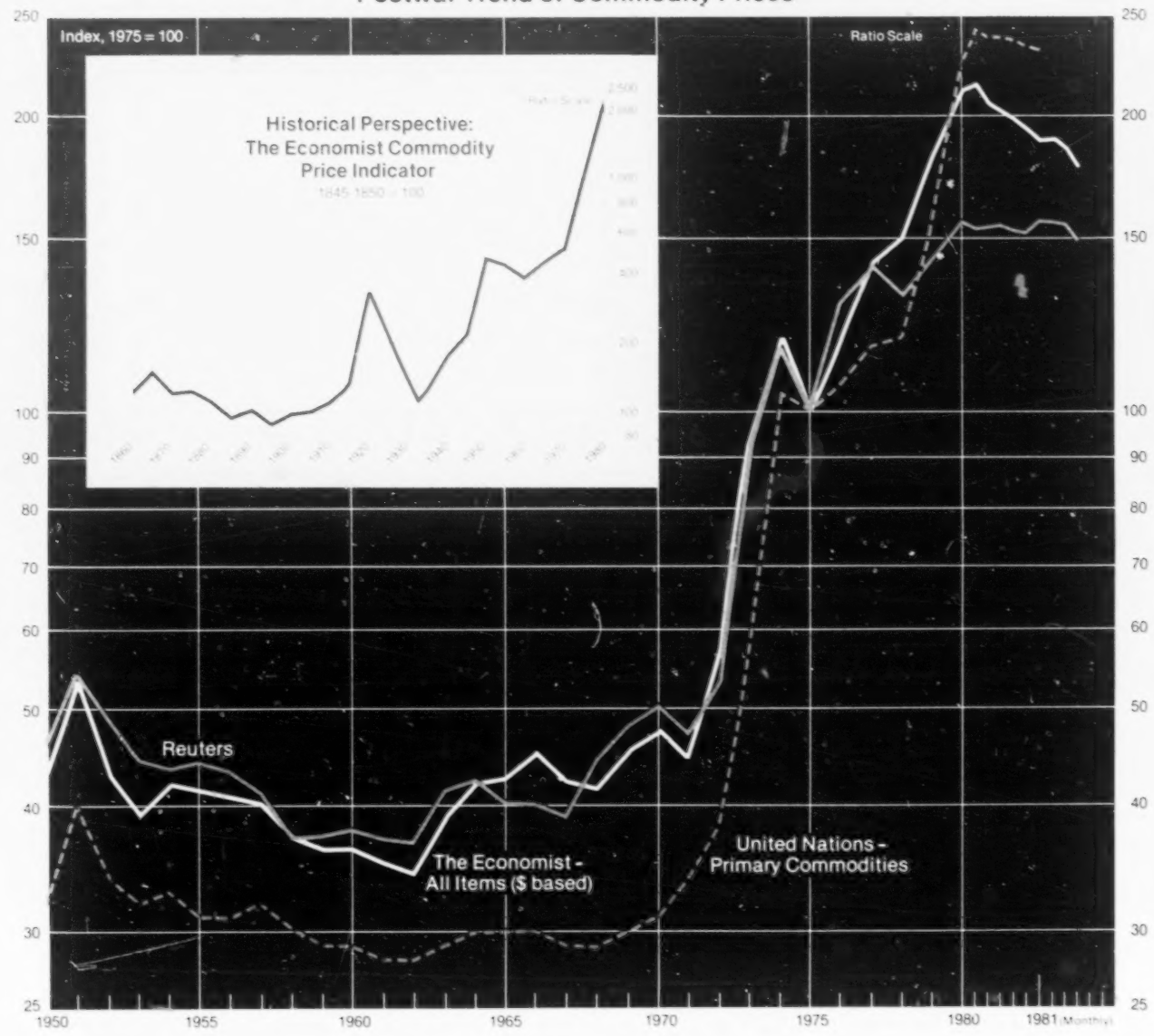
The Conference Board

Commodity Prices in World Markets

Economic Road Maps
Nos. 1912-1913 October, 1981

Not many statistical series can claim an ancestry as long as those for commodity prices. As early as 1845, *The Economist* of London started publishing an index of commodity prices primarily in order to draw attention to the rise in prices following the discoveries of gold in the United States and Australia. Britain at the time was the world's leading consumer of raw materials and food, and prices quoted in London were representative of world trade in commodities. Since the end of World War II, however, prices quoted in the U.S. market have progressively gained in importance as world measures.

Postwar Trend of Commodity Prices



Three broad commodity price indexes are plotted on page 1. These indexes differ with respect to the number of commodities included, the type of prices they cover, and the weights assigned to each commodity. The U.N. Primary Commodity Index, by far the most comprehensive of the three, reflects prices of 61 commodities (the nonferrous base metal index is compiled separately and is not part of the primary index, while base metals are part of both *The Economist* and the Reuters index). *The Economist* index covers less than half of the commodities included in the U.N. index, and Reuters index includes only 17 commodities. Weighting patterns differ substantially, with probably the most important difference being that crude petroleum accounts for half of the total weights in the U.N. index, but is not included at all in the other two.

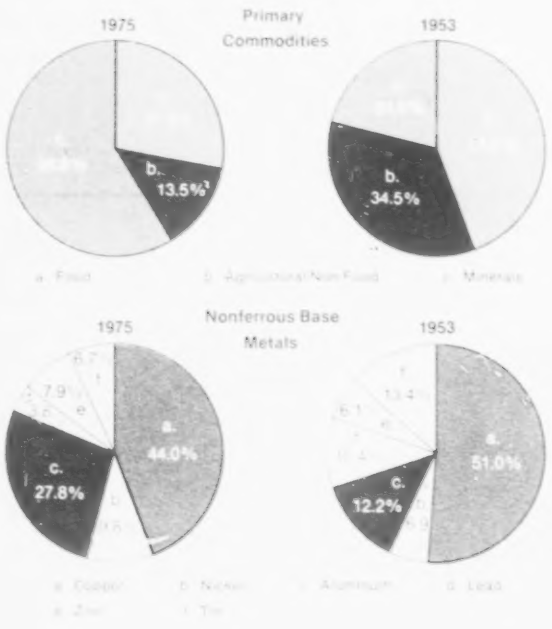
Commodity price indexes can also differ with respect to the currency in which the prices are quoted. For example, the British pound was strenghtening against the dollar during the years 1977-1980, and this dampened the rise in *The Economist's* sterling-based price index relative to the rise in the dollar-based index for the same set of commodities (chart at top of page3).

In spite of the substantial differences among the three indexes, all show a broadly similar pattern of changes in commodity prices. All show a decline between the Korean War boom and 1962, followed by some increase. The unprecedented rise during 1972 and 1973 is registered by all three indexes, as is the 1975 decline reflecting recession. Between 1972 and 1974, commodity prices rose faster than ever before. On each previous occasion when prices rose significantly—such as during wars—the high levels were not maintained for long. Rather, the run-up was followed first by sharp declines and then by a prolonged period of small declines. But this did not happen in the 1970's, and the end of the decade prices were substantially higher than those of the 1972-1974 period.

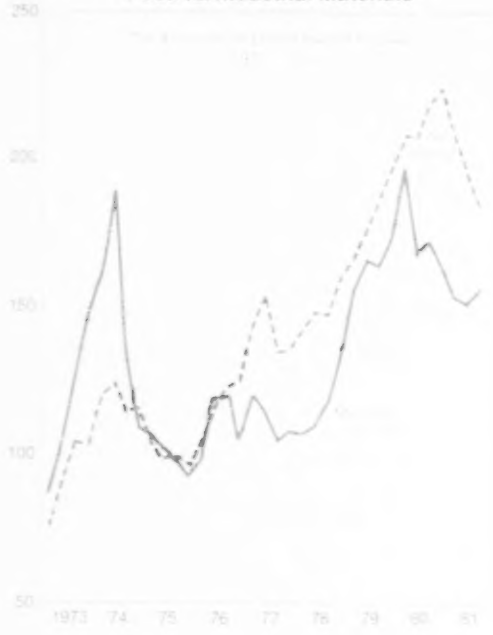
Primary commodities are basically unprocessed or semiprocessed raw materials used in the manufacture of other goods. Their prices are characterized by wide fluctuations related to shifts in demand and supply.

Prices of metals and minerals depend heavily on the needs of industrialized countries. When economic growth is steady in these countries, commodity prices tend to be stable, but

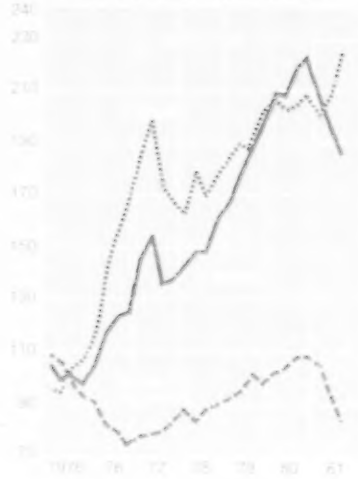
How the U.N. Indexes are Made Up



Food vs. Industrial Materials



Effect of Currency Movements on Commodity Indexes

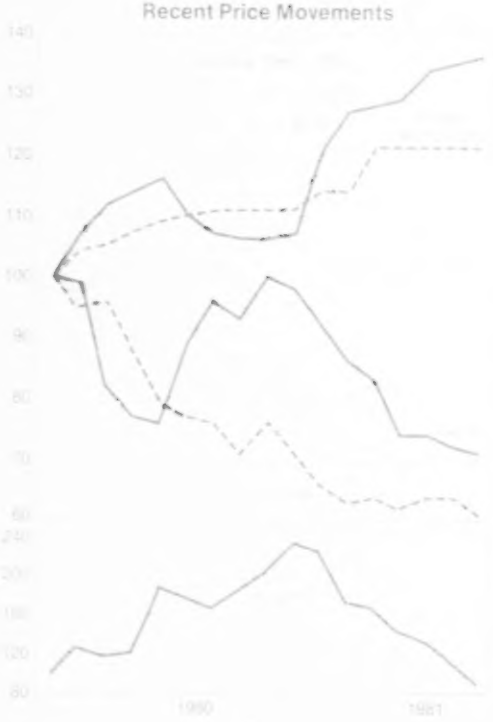


booms send commodity prices soaring and declining industrial activity depresses prices (see chart at bottom of page 4). Food prices, on the other hand, are mostly influenced by supply factors, that is, by weather and crop conditions. In the case of agricultural commodities that are industrial materials, both demand and supply are important price factors. Rubber and sisal are representative examples. The onset of floating exchange rates brought a further element of uncertainty into the volatile commodity price system by encouraging speculative buying as a hedge against changing rates.

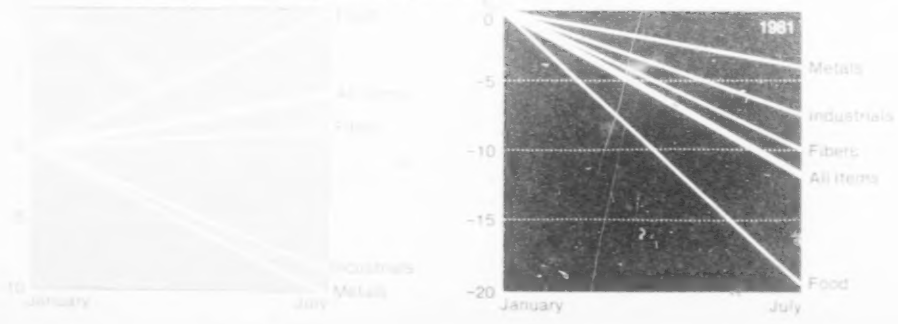
Reasons for the decline in recent months include soaring interest rates, which make financing of commodity inventories very expensive, and slackening business activity. The wide fluctuations in commodity prices can create problems for both consuming and producing countries. Most developing

Prices of Selected Internationally Traded Commodities

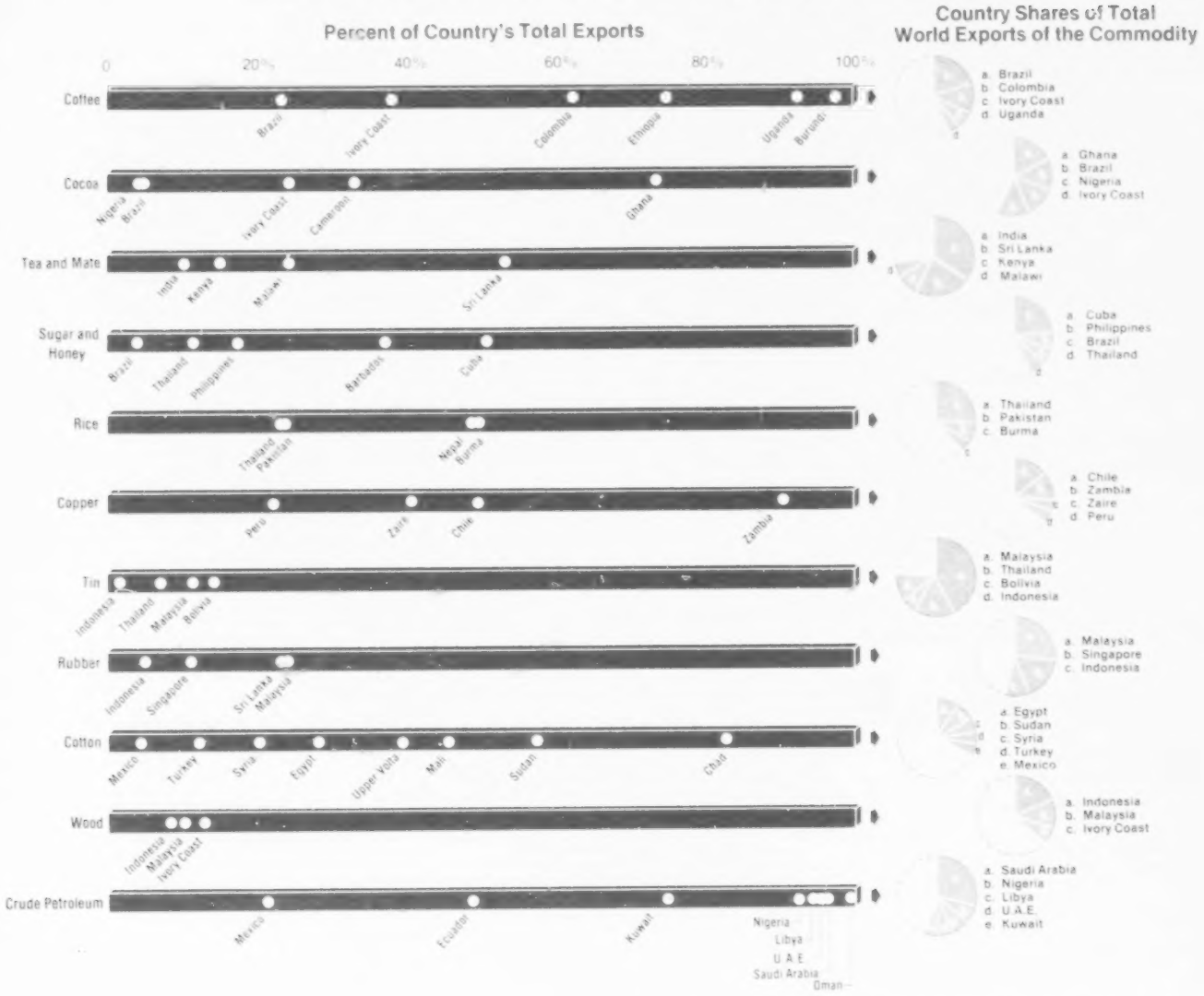
Recent Price Movements



Changes in Major Commodity Price Indexes, 1980 and 1981

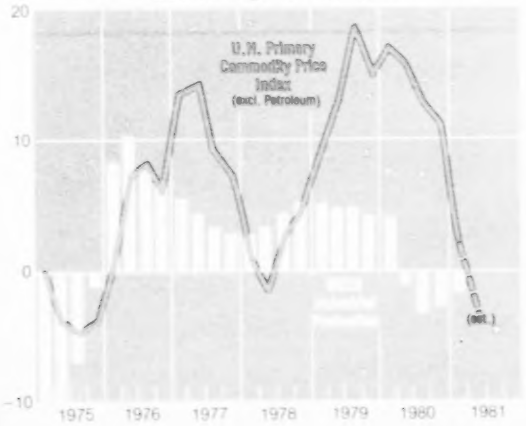


Importance of Commodity Exports of Developing Countries



Industrial Production and Commodity Prices

Percent Change from Year Earlier



countries depend on commodity exports for the bulk of their export earnings, with some countries relying almost entirely on three or fewer products, and wide price changes are very disruptive to their economies. Producing countries have tried to stabilize or raise prices and to restrict production numerous times, but most schemes ended in failure. The creation of OPEC is by far the best known example of a successful effort to control the price of a commodity on the part of producers. For a number of years one of the major issues in the "North-South" dialogue has been the problem of reaching an agreement on a price stabilization mechanism. Success has so far been elusive, but the issue will come up for discussion again when government leaders of the two groups meet in Mexico this month.

Eva Culen

Sources: United Nations; *The Economist;* Reuters; Organization for Economic Cooperation and Development; The Conference Board.

ECONOMIC ROAD MAPS

Eva Culen, Editor — Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director

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U.S. Regional Projections to the Year 2000

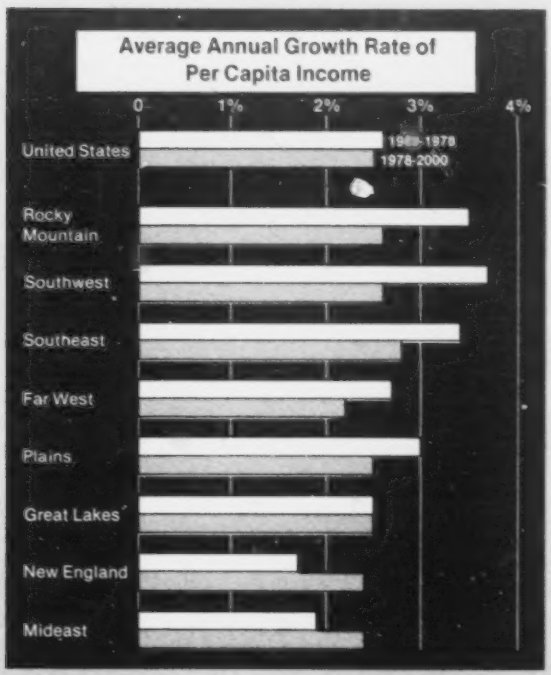
Economic Road Maps

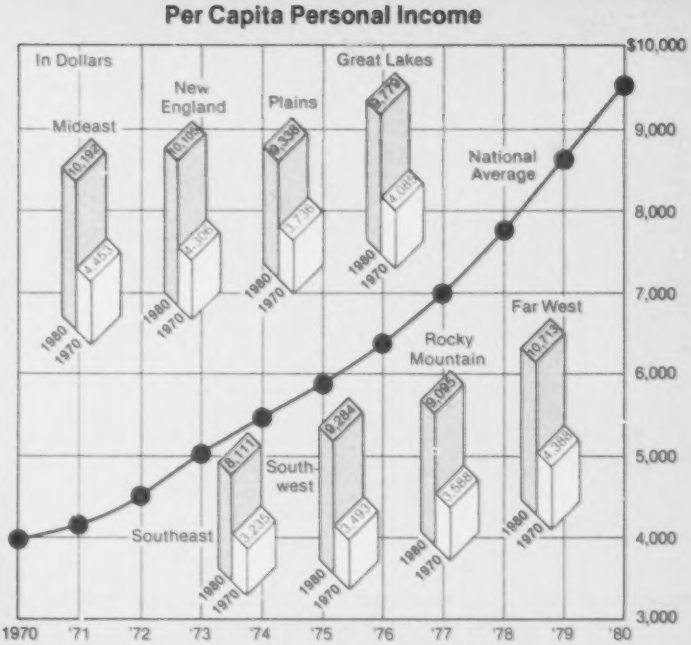
Nos. 1914-1915

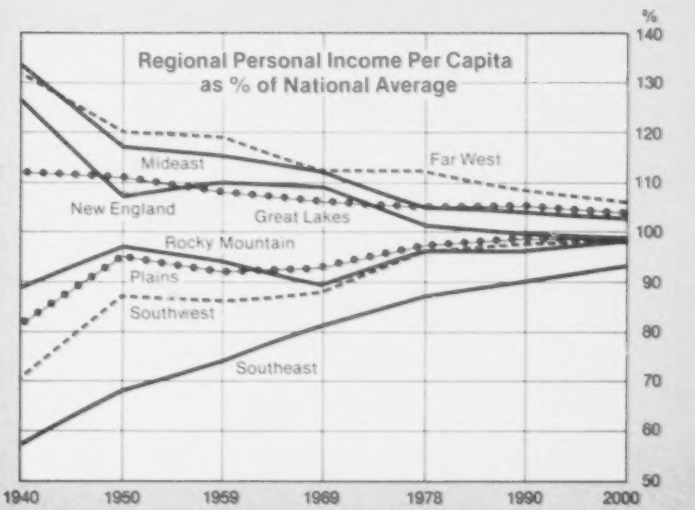
November, 1981

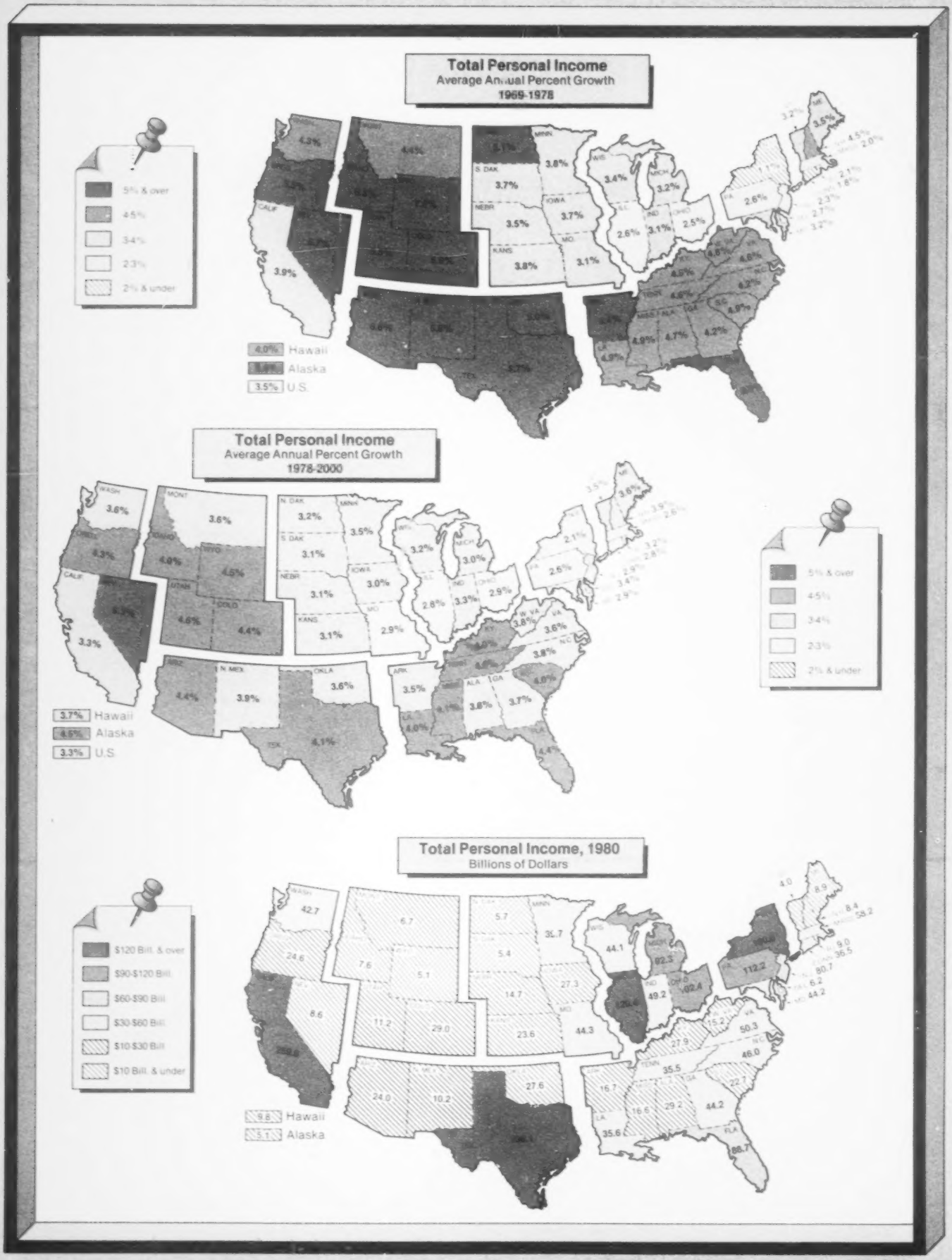
The Bureau of Economic Analysis has recently released regional and state projections of personal income, population, earnings and employment to the year 2000. The projections, which are based on actual data through 1978, are "an extension of past economic relationships and assume no major policy changes." The projections indicate that total U.S. personal income, expressed in constant dollars, will trend up at 3.8% per year from 1978 to 1990, and 2.8% from 1990 to 2000; this compares with an average annual increase of 3.5% during the 1970s. Population growth will slow down. On a per capita basis, real personal income is projected to trend up at 2.8% per year in the 1980's and 2.1% in the 1990's, compared with 2.6% in the 1970's. Per capita real income is a rough measure of the living standard.

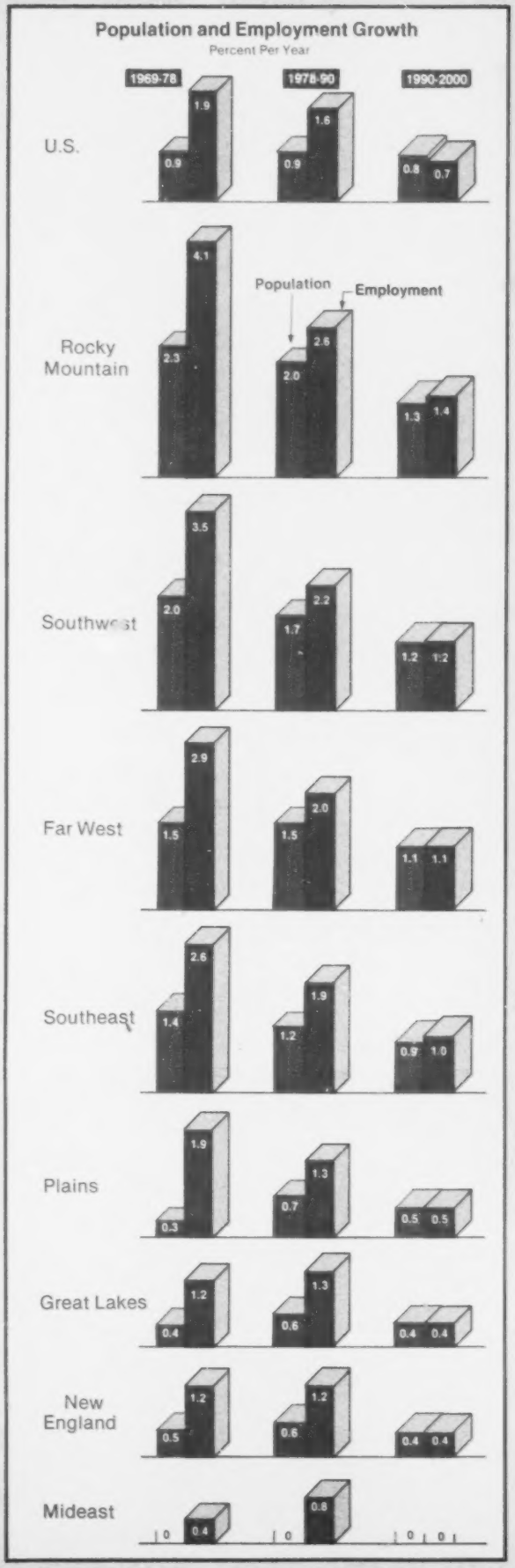
There is a close relationship between regional and national economies; as a result, personal income expansion in most regions moves roughly parallel with the national experience. Nevertheless, there are sizable state and regional growth differentials. As the chart below shows, average per capita growth rates will be considerably more alike in the 1980's and 1990's, ranging from 2.8% in the Southeast to 2.2% in the Far West, than they were in the 1970's, when the range was from 3.7% in the Southwest to 1.7% in New England. (The composition of the regions is shown in the maps on page 2.) The absolute levels of per capita income continue to be lower in the South and

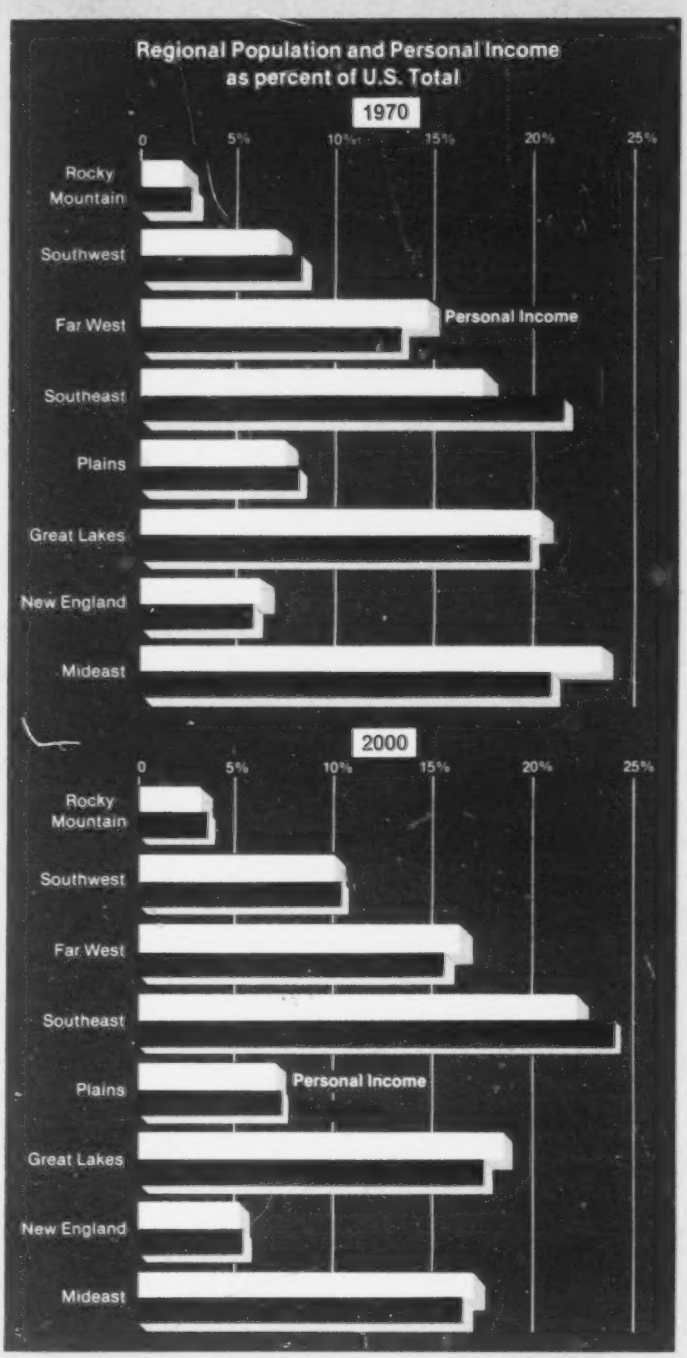







Total Personal Income
Average Annual Percent Growth
1969-1978
5% & over
4-5%
3-4%
2-3%
2% & under
4.0% Hawaii
3.5% Alaska
3.5% U.S.
Total Personal Income
Average Annual Percent Growth
1978-2000
5% & over
4-5%
3-4%
2-3%
2% & under
3.7% Hawaii
4.5% Alaska
3.3% U.S.
Total Personal Income, 1980
Billions of Dollars
$120 Bill. & over
$90-$120 Bill.
$60-$90 Bill.
$30-$60 Bill.
$10-$30 Bill.
$10 Bill. & under
9.8 Hawaii
5.1 Alaska





West than in the older industrial states of the East and North. However, the lower income levels have not deterred sharp southward and westward population shifts. And despite the inflow of people, per capita income is rising rapidly in those regions because their aggregate economic growth rates are so strong. The result of these trends is that regional levels of per capita real income are converging. By the year 2000, all are expected to be within 10% of the national average. In Mississippi, the lowest income state, per capita real income in 1978 was 29% below the U.S. average; the shortfall in 2000 is projected at 19 percent. The highest income state is Alaska.

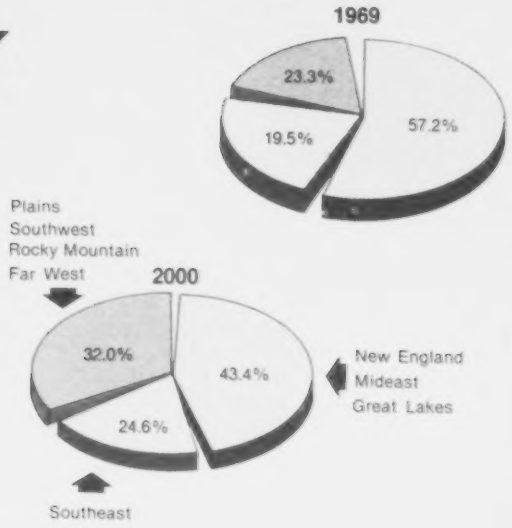
National population growth is projected to average 0.8% per year in the 1980's and 1990's, down slightly from 0.9% between

Industries with Fastest Employment Growth, 1978-2000 By Region

Percent Per Year

	Finance	Services	Construction	Wholesale Trade	Retail Trade	Durables Manufacturing	Mining	Forestry, Fishery, etc.
	1.8	1.8	1.2	1.2	1.4		1.2	
New England	1.4	1.3	1.4					1.4
Mideast	0.9	1.2	1.2				1.6	
Great Lakes	1.6	1.7	1.1		1.1		1.6	
Plains	1.7	1.7			1.1	1.4		
Southeast	2.5	2.0			1.9	1.8		
Southwest	2.5	2.3		2.0	2.0	2.9		
Rocky Mountain	3.0	2.8				2.6	3.2	
Far West	2.1	2.2			1.7	1.6		

Geographic Shift of Manufacturing Employment, 1969-2000



1969 and 1978. Employment growth, which averaged 1.9% annually during the 1970's, will slow to 1.6% in this decade and to 0.7% from 1990 to 2000. The convergence of the population and employment growth rates reflects the aging of the population; that is, the surge of the baby-boom generation into the ranks of the employed is over.

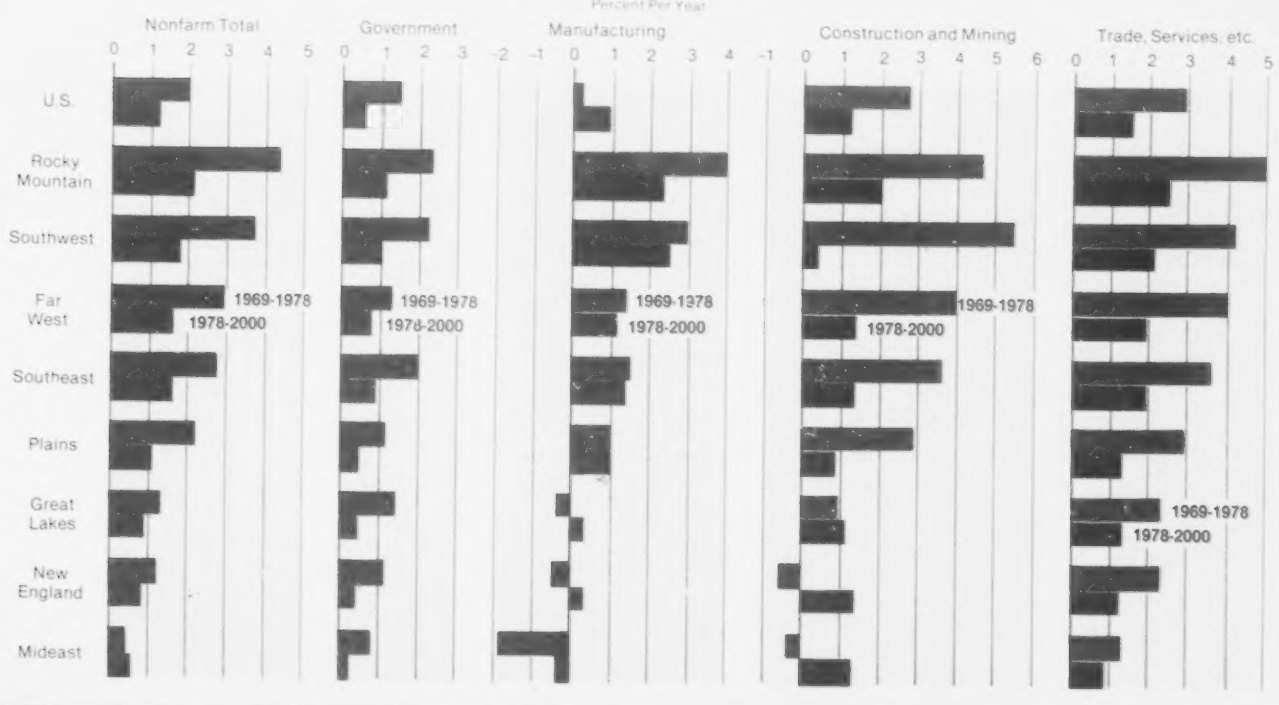
Finance and the services will be among the fastest growing industries in every region in the next two decades. Durables manufacturing will continue to shift toward the South and West, lured by lower wages, taxes, energy and land costs, and it is projected to be among the fastest growing industries in the sunbelt regions.

Eva Culen

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; The Conference Board.

Regional Employment Growth

Percent Per Year



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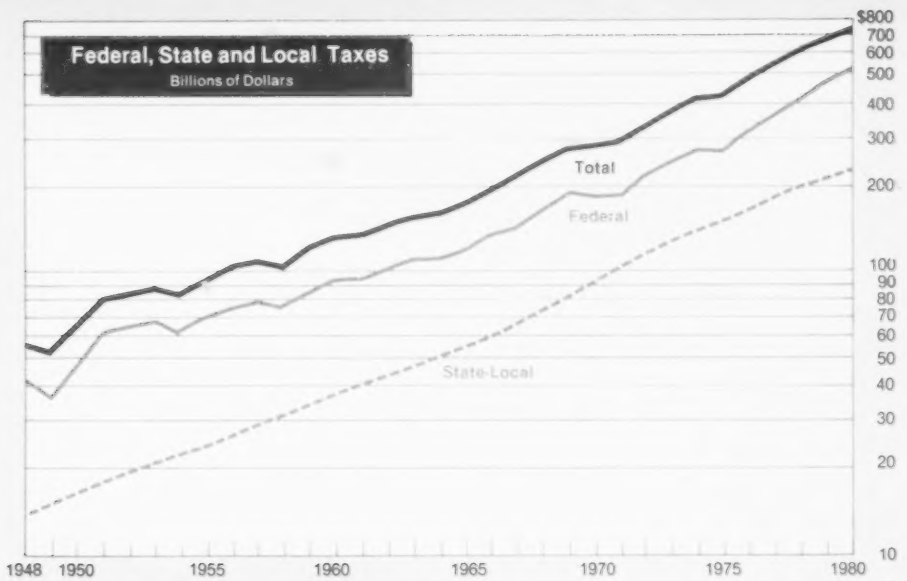
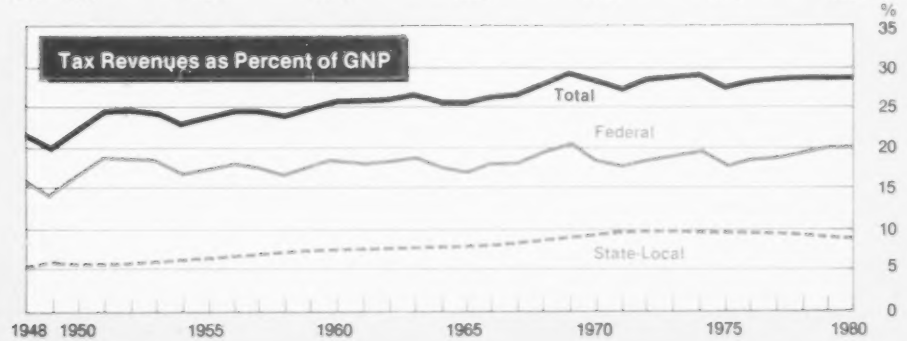
Perspective on Taxes

Economic Road Maps
Nos. 1916-1917

December, 1981

Federal, state and local tax revenues were $751 billion in 1980, and will be at least $100 billion higher in 1981. The Federal Government accounts for about 70% of the total. The two largest taxes in revenue terms are both federal: the federal personal income tax, which raised $251 billion in 1980, and federal social insurance taxes, which were $153 billion. State and local sales taxes amounted to $83 billion in 1980, making them third in revenue terms. Social insurance taxes have been the fastest growing federal revenue source over the past three decades. At the state-local level, personal income tax revenues have been the fastest growing, reflecting not only growth of taxable incomes but also growth in the number of jurisdictions levying such a tax. The rise in state and local property taxes has slowed in the last several years; at $67.5 billion in 1980, they were well below sales taxes.

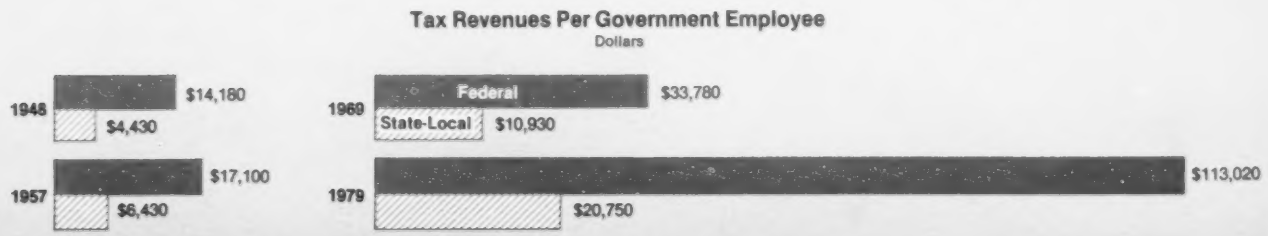


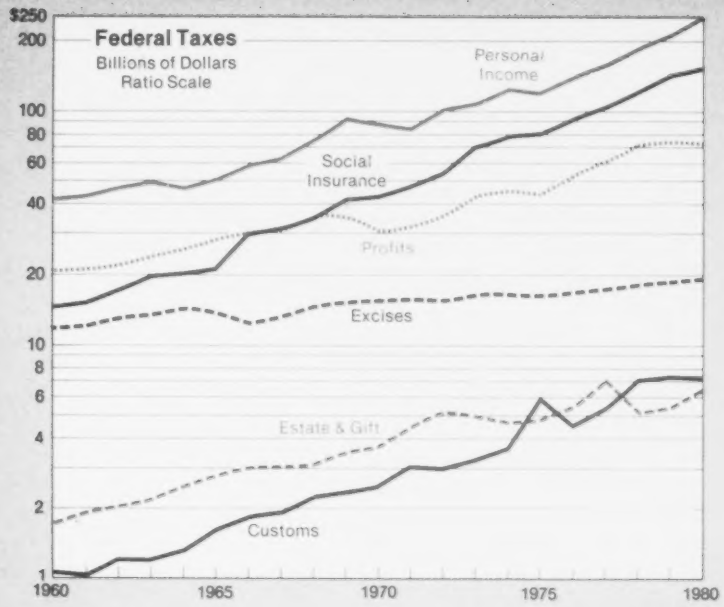


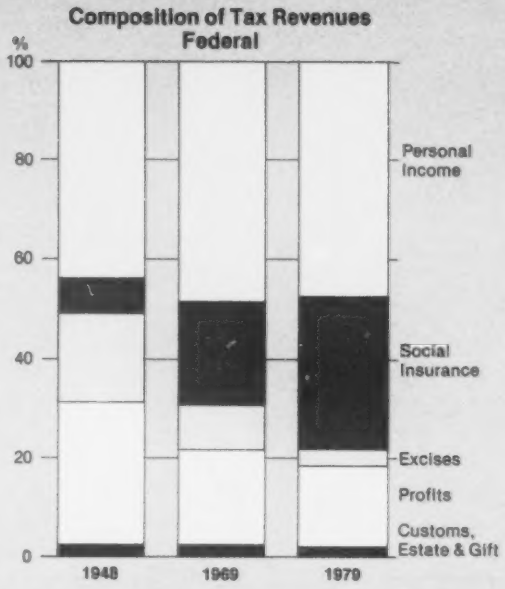
Federal taxes in 1980 equaled 19.7% of the GNP and state-local taxes 8.9%, making a total ratio of 28.6 percent. The state-local ratio has drifted off from its peak of nearly 10% in the early 1970's, but the federal ratio has risen substantially in recent years. In 1981, the ratio of federal taxes to GNP will probably reach 21%, a record. The previous high was 20.1% in 1969.

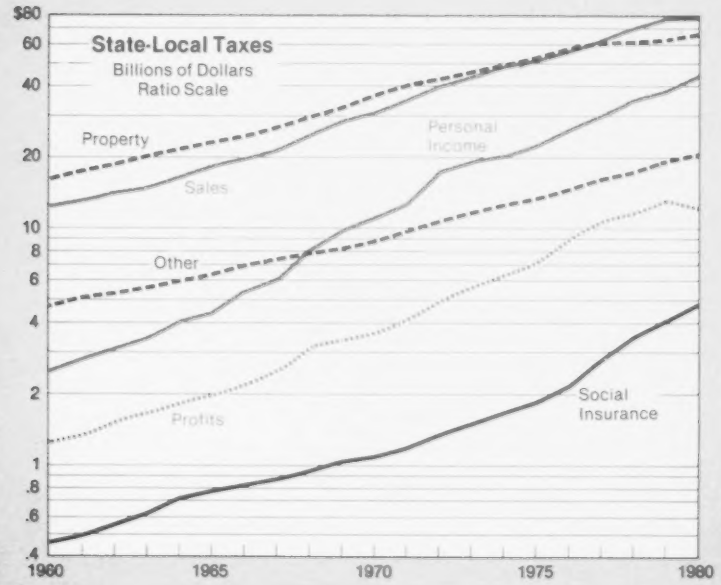
These tax data do not include payments into federal, state and local government employee retirement systems, the railroad retirement system, or social security recipients' payments for supplementary hospital insurance. These payments (about $45 billion in 1980) are excluded on the theory that those making them do not think of them as taxes.

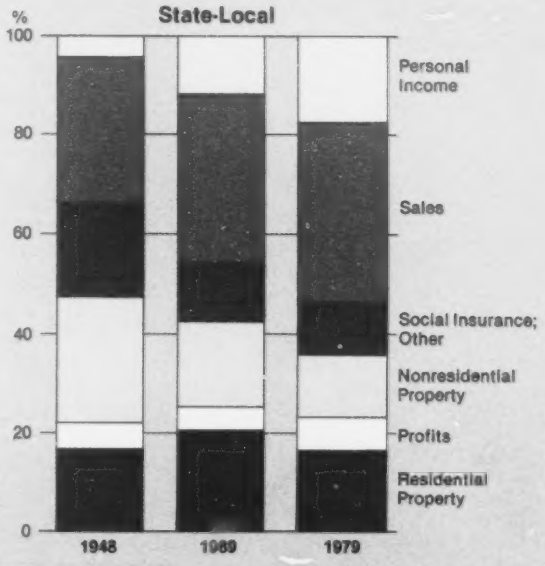
Property taxes rise quite smoothly through time (chart on page 2). Taxes on sales, corporate profits, and personal income, on the other hand, are sensitive to the business cycle. This sensitivity

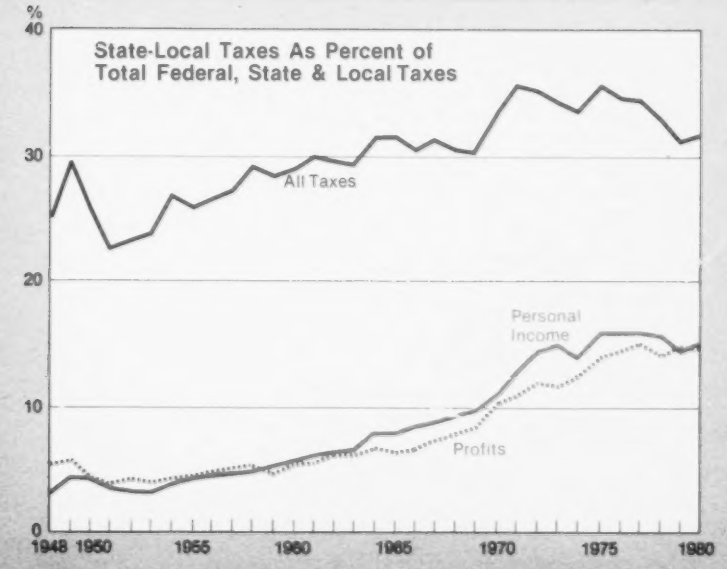








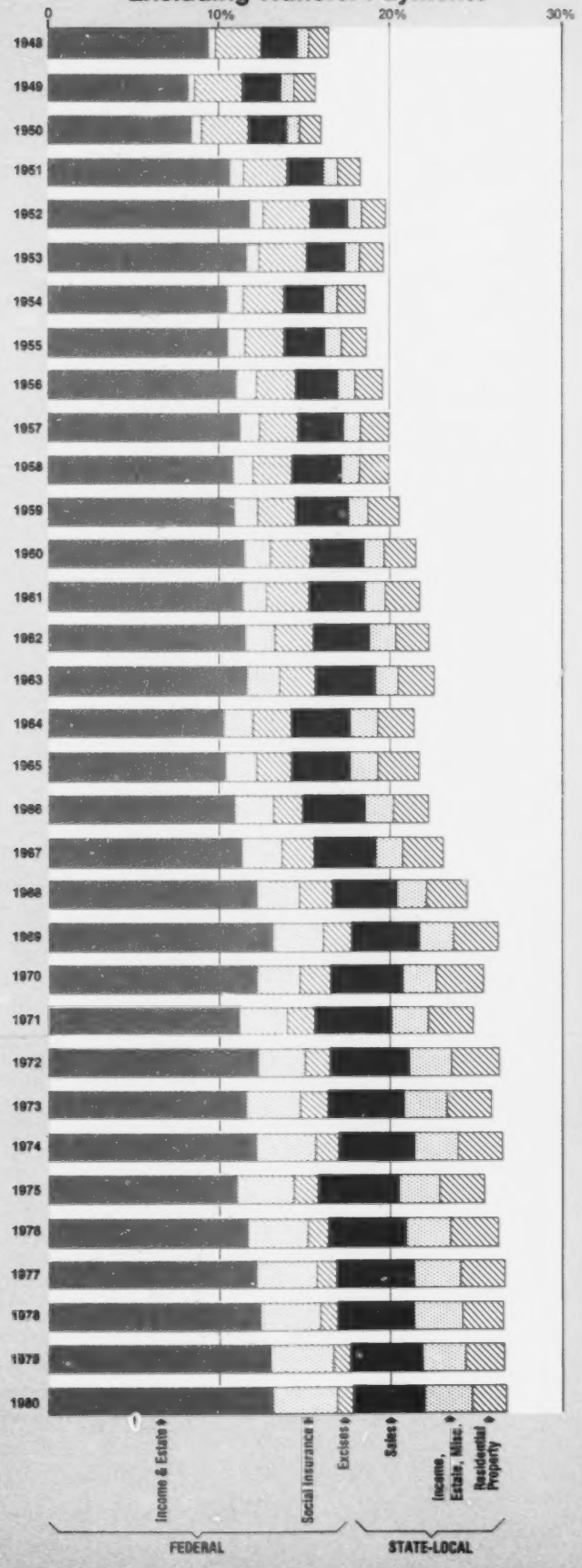




is quite evident in federal taxes, although inflation has dampened the effect by pushing taxable incomes up even in economic slumps. The cyclical pattern is less clear in state-local taxes, in part because of the uptrend due to growth over time in the number of jurisdictions taxing income and profits.

Federal social insurance taxes grew about 13½% per year, on average, in the three postwar decades; personal income taxes about 8½% per year; and the total of other federal taxes about 5½% per year. The result was an increase in the relative importance of social insurance taxes, from 7% of federal taxes in 1948 to 30% in 1979, offset by a decline in the importance of profit and excise taxes. The importance of personal income taxes was quite stable over these years. The three years used for the charts of tax composition (above)

Taxes on Persons as Percent of Pretax Personal Income Excluding Transfer Payments



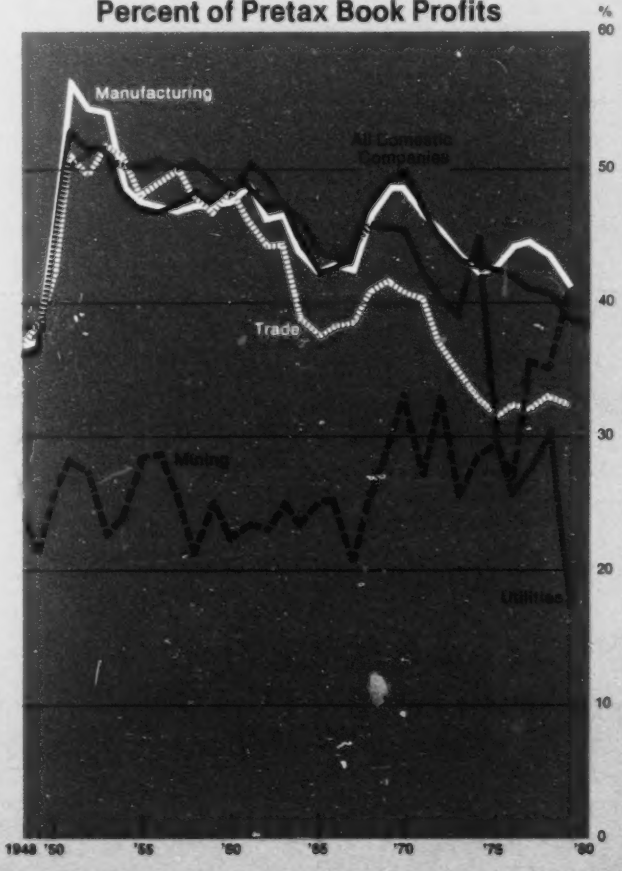
were chosen because all three were more or less peak years of the business cycle. Fast growth in state-local personal income taxes pushed them from 4% of the state-local total in 1948 to 18% in 1979. Through much of the postwar era, state-local taxes grew faster than federal taxes, so that the state-local share of total taxes increased (lower chart, page 2). In part, this reflected growth in the number of states and localities with certain taxes. Twenty years ago, for instance, only 33 states had a personal income tax and 37 had a profits tax, while in 1980 the figures were 44 and 46 states, respectively.

The bars on this page are an approximation of the tax burden on persons. The burden is calculated using those taxes that appear to fall most directly on persons, and dividing them by personal income excluding transfer income; the latter is excluded because it is not part of the tax base. The burden in 1980 was 27%, breaking down into 18% federal and 9% state-local. The postwar low was 16% in 1949 and 1950. There are no state-by-state data directly comparable to the national data used on this page, but a reasonably similar calculation is shown on the map (page 4). The major incomparability is that local taxes on profits and state-local taxes on nonresidential property cannot be excluded from the state-by-state tax burden calculations. The highest and lowest 1979 burdens were, respectively, 17.6% in New York, and 9.5% in Texas. The national average, calculated this way, was 12.2 percent.

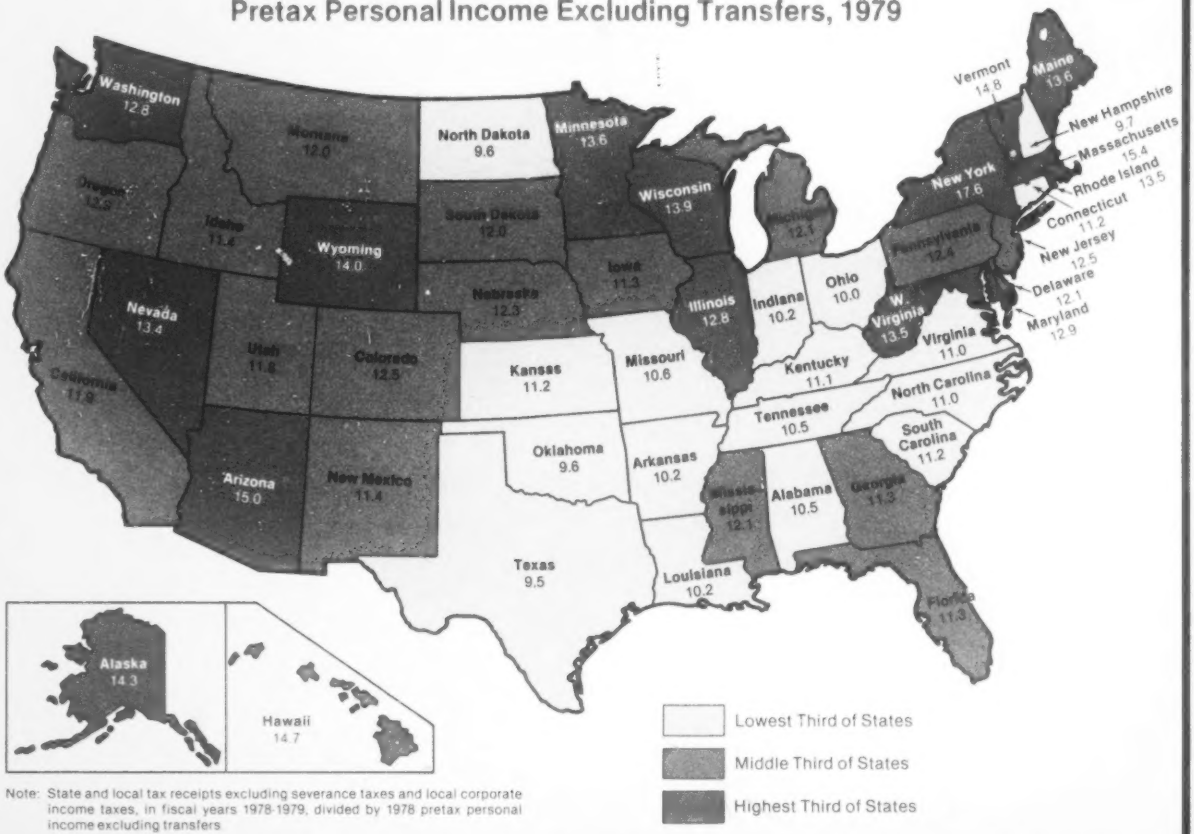
Lora S. Collins

Sources: Bureau of the Census; Bureau of Economic Analysis; The Conference Board.

Corporate Profits Taxes as Percent of Pretax Book Profits



State and Local Taxes as Percent of Pretax Personal Income Excluding Transfers, 1979



Note: State and local tax receipts excluding severance taxes and local corporate income taxes, in fiscal years 1978-1979, divided by 1978 pretax personal income excluding transfers.

Importance of Three Major Taxes, as Percent of Total State-Local Taxes

Property: Residential and Nonresidential
Sales: General Sales Taxes
Income: Personal and Corporate

	Property	Sales	Income
ALA.	12	32	21
ALAS.	32	4	36
ARIZ.	35	34	15
ARK.	21	27	24
CAL.	25	29	30
COLO.	34	30	31
CONN.	45	23	10
DEL.	16	0	46
FLA.	32	28	5
GA.	28	27	25
HAW.	16	39	28
IDA.	32	19	26
ILL.	35	24	20

	Property	Sales	Income
IND.	33	32	19
IOWA	38	16	27
KANS.	41	20	21
KY.	18	23	30
LA.	13	36	14
ME.	38	23	18
MD.	26	16	37
MASS.	46	11	31
MICH.	36	18	33
MINN.	28	14	36
MISS.	22	39	16
MO.	28	28	22

	Property	Sales	Income
MONT.	45	0	25
NEB.	43	20	18
NEV.	32	26	0
N.H.	59	0	11
N.J.	47	14	17
N.M.	16	38	11
N.Y.	35	19	32
N.C.	23	21	31
N.D.	34	22	16
OHIO	34	19	25
OKLA.	20	22	20
OREG.	38	0	4

	Property	Sales	Income
PA.	25	18	30
R.I.	41	18	23
S.C.	22	26	28
S.D.	46	29	1
TENN.	23	41	7
TEX.	36	26	0
UTAH	29	32	24
VT.	40	9	24
VA.	27	17	28
WASH.	31	43	0
W.VA.	17	39	17
WIS.	34	17	35
WYO.	40	28	0

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The Conference Board

Housing

Economic Road Maps

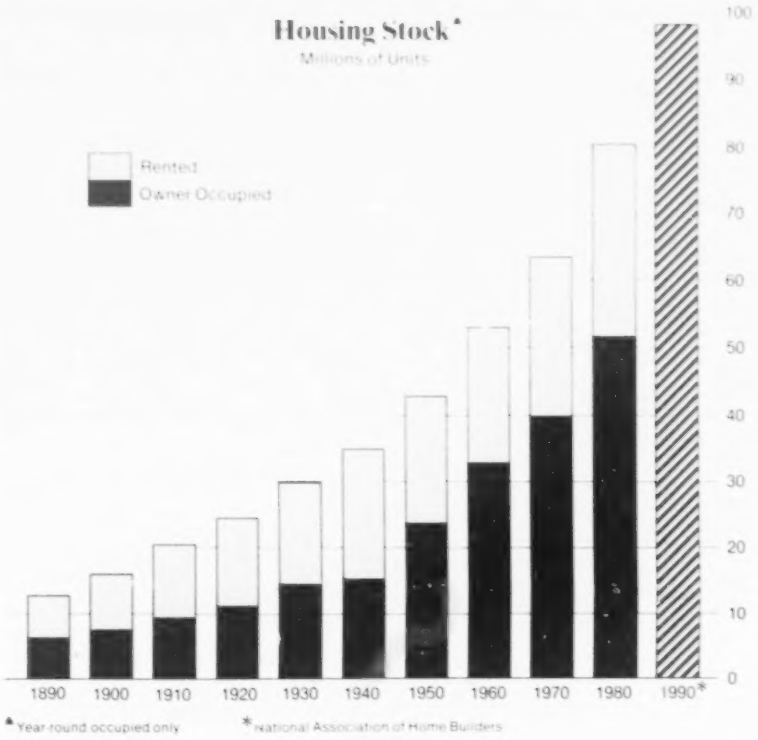
Nos. 1918-1919 January, 1982

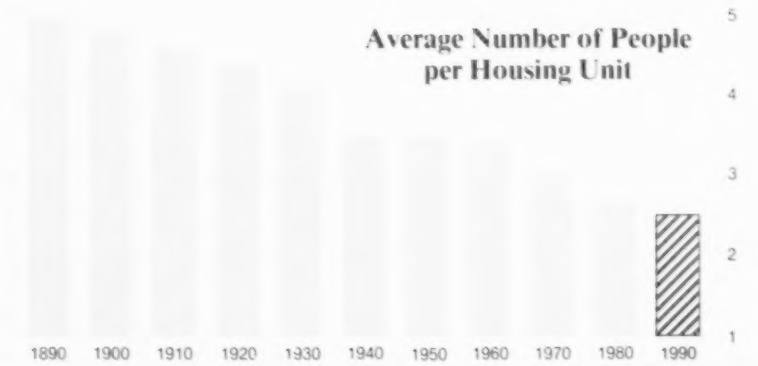
The 1980 Census shows a continuation of several long-term trends in housing. One of the more pronounced trends is the decline in the average number of persons occupying a home. After remaining stable a 3½ persons per unit in the 1940's and 1950's, the average fell to 3 persons per unit in the 1960's, and to 2.6 persons per unit in the 1970's. In the 1980's, the economics of the housing market are less likely to be favorable to strong expansion than was the case in recent decades. The high cost of energy, for heating and cooling and for transportation to suburban homes, will also be a dampening factor. And there will probably be less pressure for housing expansion from demographic and social forces. The result may be little change in the average number of people occupying a home in the 1980's.

Renters tend to move more frequently than homeowners. According to the Census, just over half of all renters in the Spring of 1980 had lived somewhere else one year earlier and fewer than 10% were living in the same unit that they had rented in 1970 (middle chart, page 2). By contrast, only 18% of the homeowners in 1980 had lived elsewhere one year earlier, and almost half (45%) were living in the same unit that they had owned in 1970.

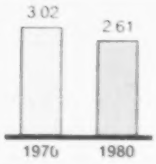
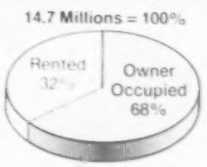
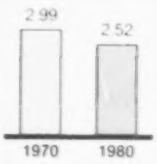
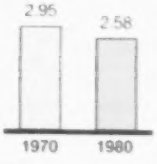
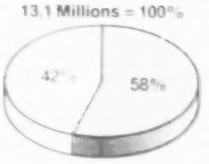
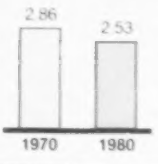
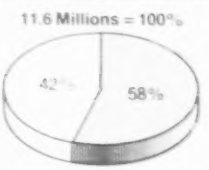
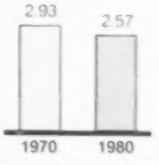
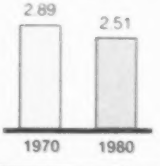
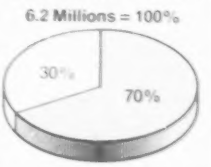
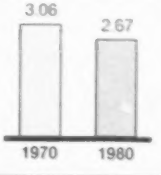
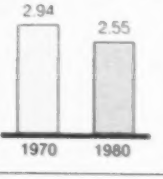
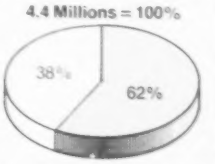
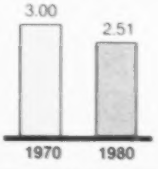
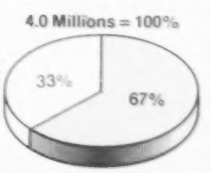
The renters' frequent moves are, by and large, a reshuffling of occupancy of an increasingly aged rental stock. Most of the growth of the housing stock in the past 40 years has been in owner-occupied units. In 1980, 44% of the owner-occupied units had been built in the 1960's and 1970's, compared with 39% of the rental units (top chart, page 2). Only one-quarter (26.5%) of the owner-occupied homes had been built before 1940, while two-fifths (39.5%) of the rental units were more than 40 years old.

The average price of a new home was $64,500 in 1980, compared with $23,400 in 1970. High costs for construction materials and labor are two important factors in the rise of home prices. However, the tremendous run-up in land values is also a key factor, and the general rise in inflation has been accompanied by a hike in interest rates on all types of borrowing—including, of course, mortgages. Whereas materials and labor accounted for about 69% of the cost of a





Housing Stock, 1980

	Persons Per Unit	Average Home Value	Average Monthly Rent	By Type
East North Central				
South Atlantic				
Middle Atlantic				
Pacific				
West South Central				
West North Central				
East South Central				
New England				
Mountain				

Housing Stock, 1979

Occupied Year Round (Million Units)

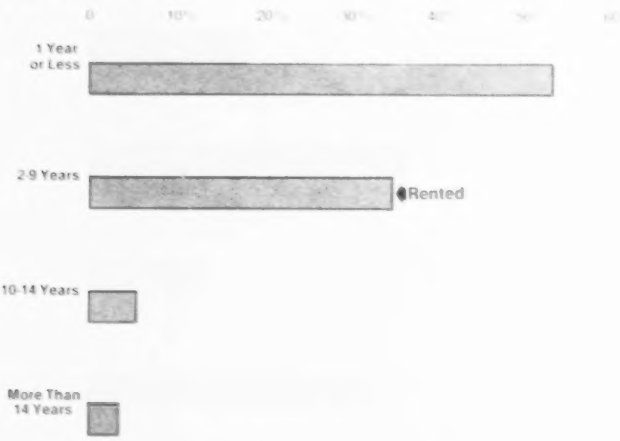
new home 30 years ago, they now account for only 47%; land and financing, which made up only 16% in 1949, account for a full 35% of the cost in 1980. A homeowner might have obtained a mortgage 30 years ago at an annual rate of 4%, depending on circumstances; 20 years ago it would have been closer to 6%; 10 years ago, 9%; and currently, about 16% per year.

Homeowner costs account for 22% of the basket of goods and services that make up the Consumer Price Index—financing, taxes and insurance (12%); and home purchase (10%). These components have been a major problem because the CPI treats them as an entirely current outlay, just like the purchase of food or clothing. The sharp acceleration of inflation in recent years has made clear the investment character of a home purchase. However, it has also increased the upward pressure of homeownership costs on the CPI. Because there is wide agreement among technical experts that, as a consequence, the CPI tends to overstate inflation, the Bureau of Labor Statistics will change the method of calculating it. Starting next year, an estimate of what the unit would cost to rent in the open market will be used. That is, in effect, an estimate of the actual current cost of shelter. A comparison of the current and new calculations (top of page 4) shows that when inflation was relatively stable, as in 1971-1973, there was not much difference between the two measures. But in 1980-1981, when price increases were accelerating, the new method shows a slower rise.

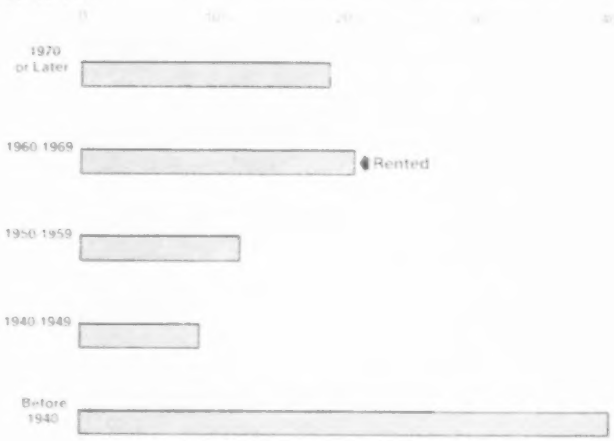
Ken Goldstein

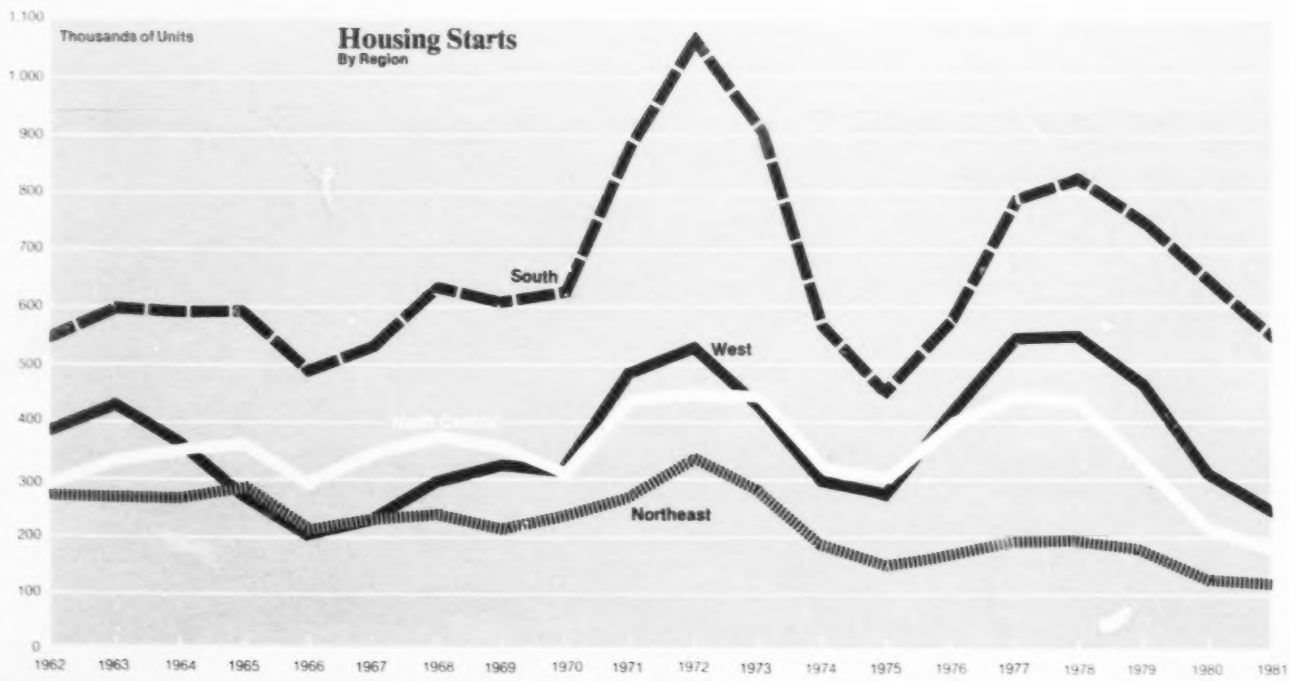
SOURCES: Departments of Housing, Commerce, and Labor; Federal Reserve; National Association of Home Builders; The Conference Board.

Percent Distribution of Owner-Occupied and of Rental Units
By Length of Occupancy

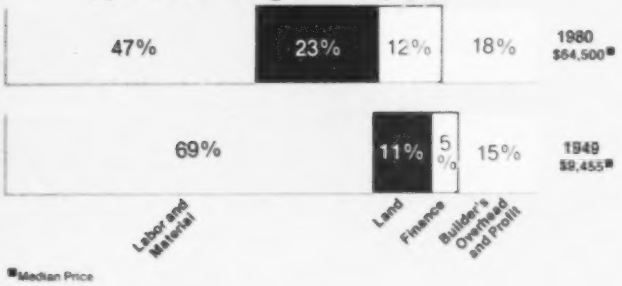


Percent Distribution of Owner-Occupied and of Rental Units
By Year Built



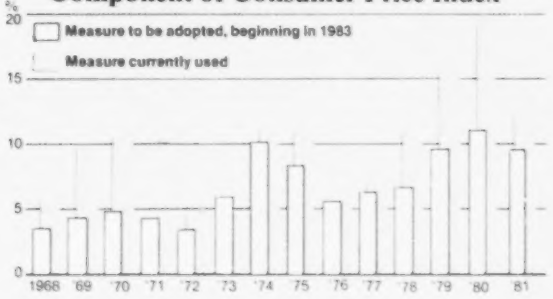


Cost Components of Typical New Single-Family House

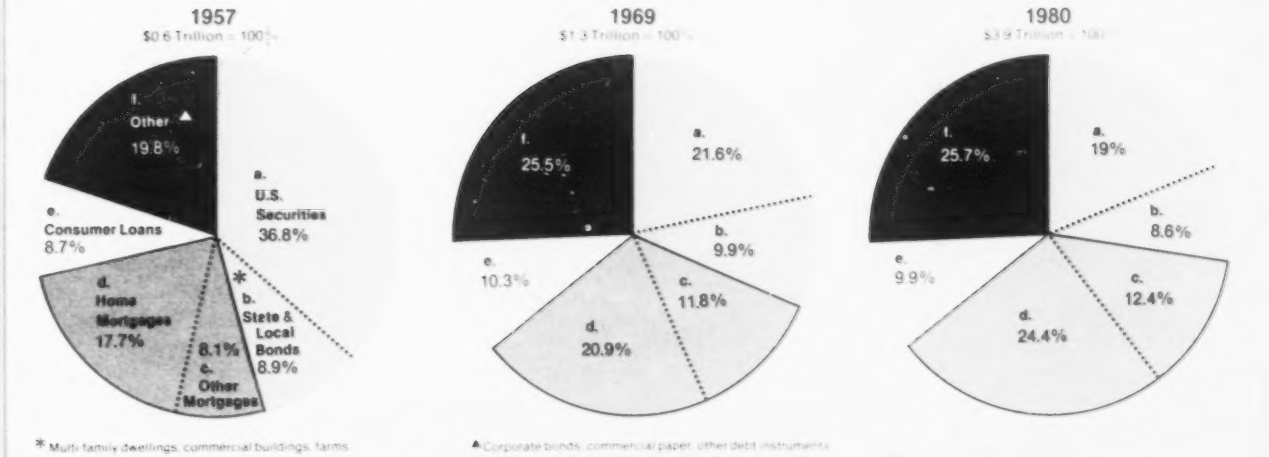


■Median Price

Annual Percent Change in Home Ownership Component of Consumer Price Index

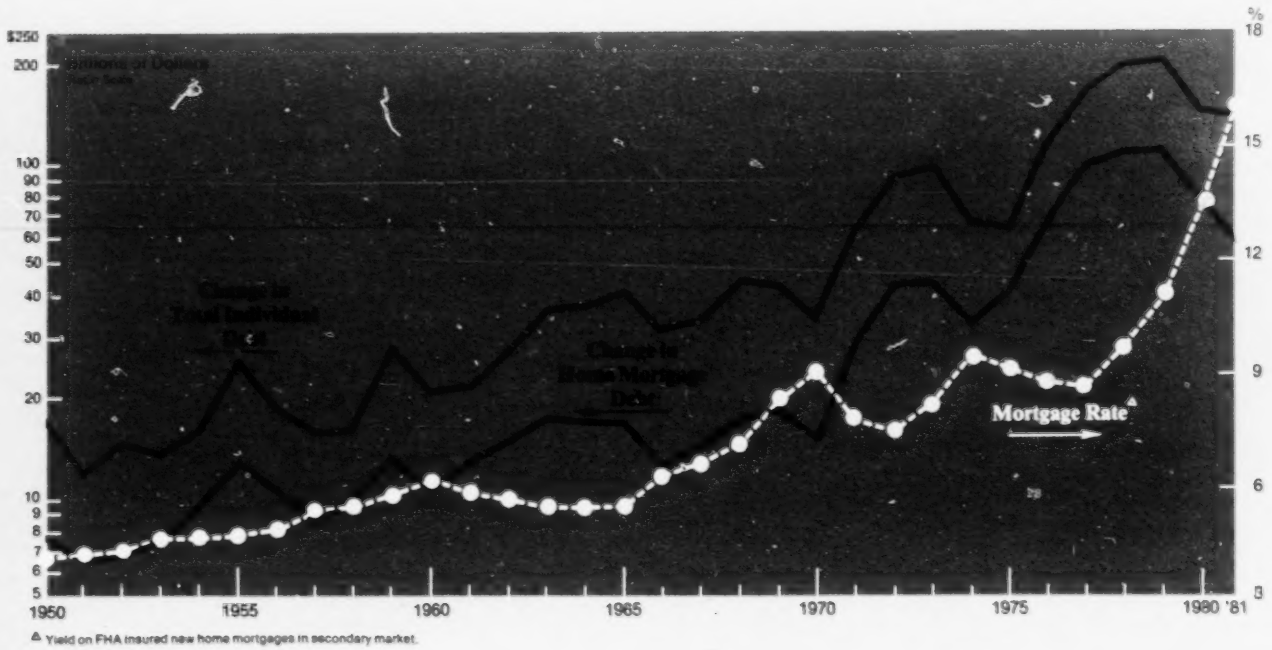


Debt Outstanding By Type



* Multi-family dwellings, commercial buildings, farms

▲Corporate bonds, commercial paper, other debt instruments



▲ Yield on FHA insured new home mortgages in secondary market.

ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director

Prices for Quantities of this chart will be supplied on request to Information Service.

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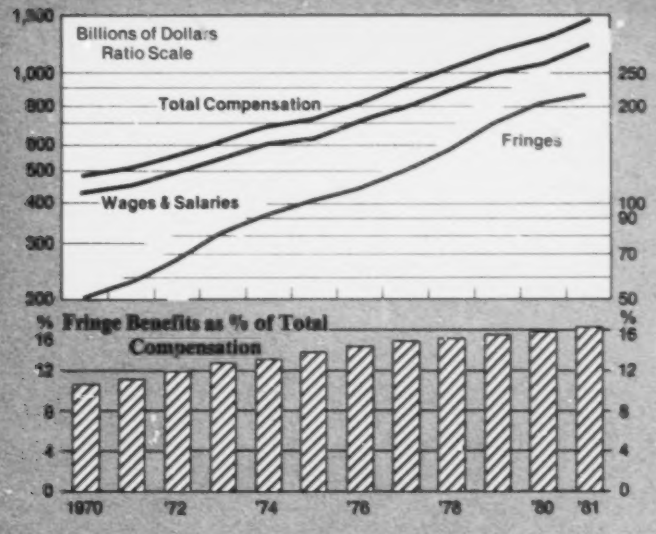
Employee Benefits

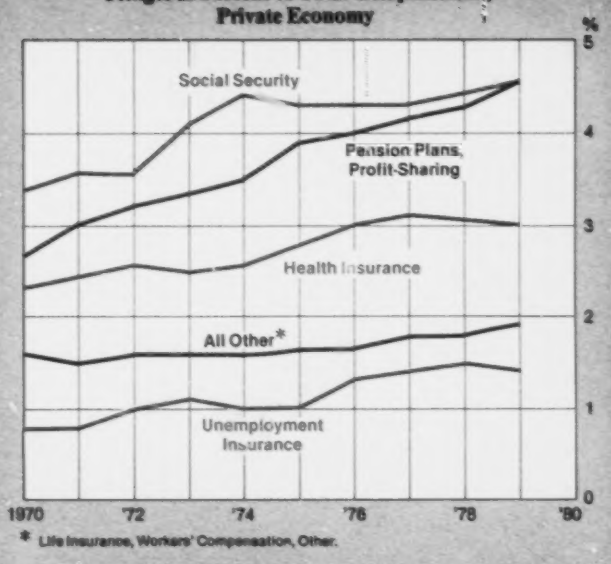
Economic Road Maps

Nos. 1920-1921 February, 1982

The total wage and salary bill in the private economy last year was $1,209 billion. An additional $233 billion was spent on "fringes"—that is, forms of compensation other than direct cash payments. Thus, fringes accounted for 16.2% of total private-sector compensation in 1981. The wages and salaries include pay for vacations and holidays. If this pay for time not worked was added to the nonwage fringe benefits, the ratio of fringes to total compensation would be around 25 percent.

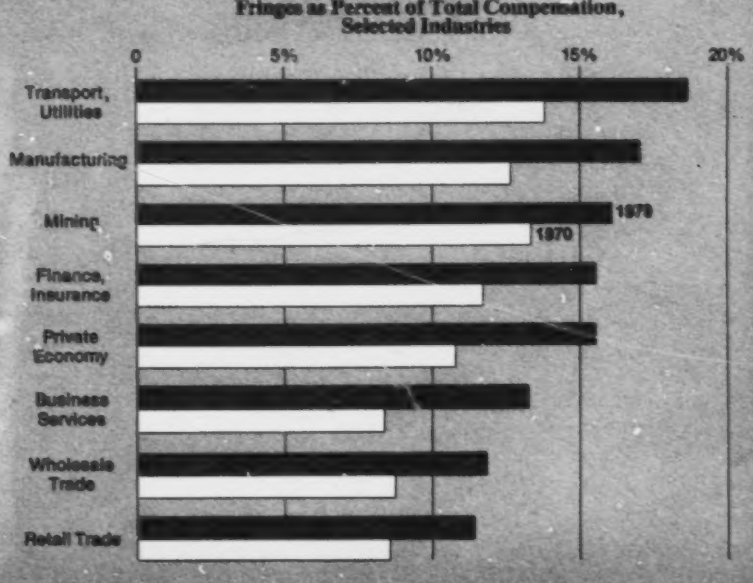
The charts on this page give a broad picture of fringes in the private sector, using national economic data. The next three pages summarize findings of the latest Conference Board survey of employee benefits, and provide more detailed information on current fringe-benefit practices.

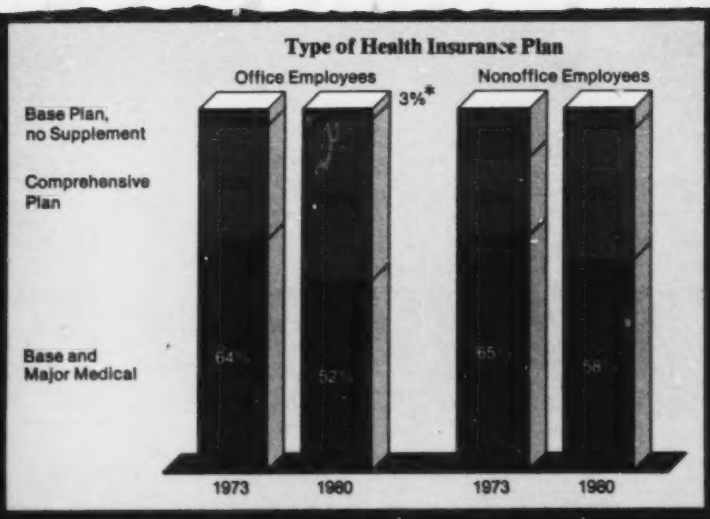




The 1981 Conference Board survey of employee benefits is the latest in a series. The survey covers 1,368 large and medium-sized companies in seven broad business categories, and provides comprehensive data on a wide variety of policies and practices in U.S. industry today. It also highlights major changes that occurred during the last decade.

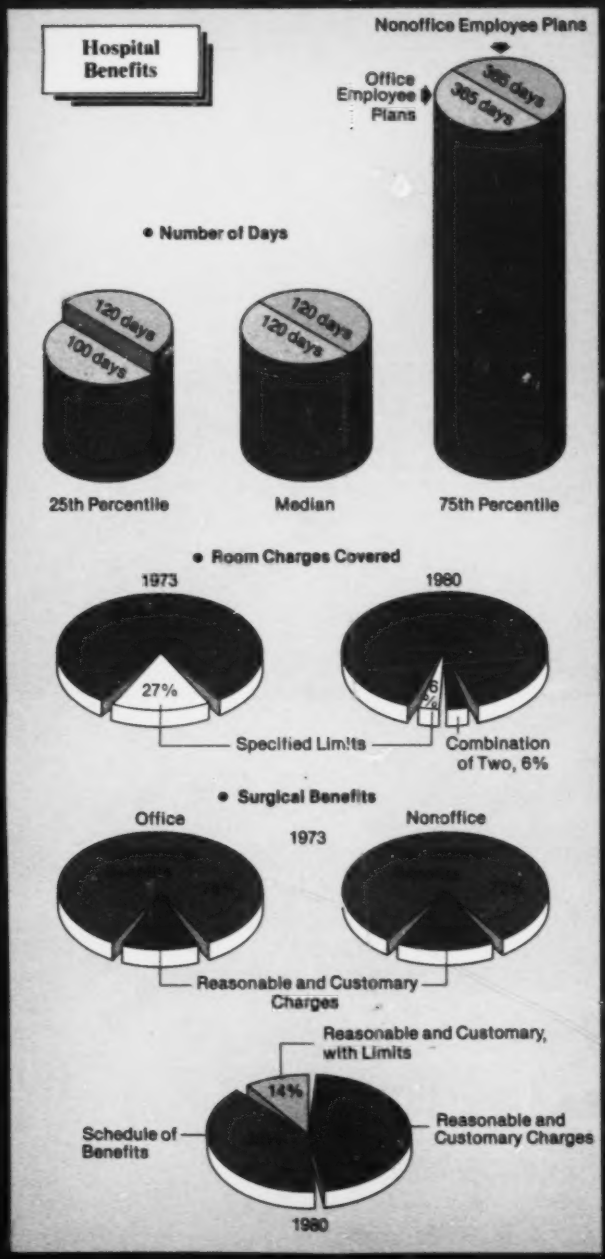
Employee benefits come in a variety of forms. Some are government mandated, such as social security benefits or unemployment insurance, for which the law concerning size of contributions by the employer is very specific. Other benefits, while voluntary on the part of the employer, become regulated once they are established. An example of such regulation is the set of requirements for participation in, and vesting and funding of, pension plans. Government intervention into

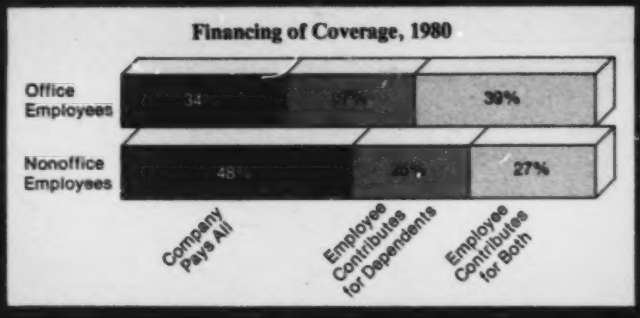




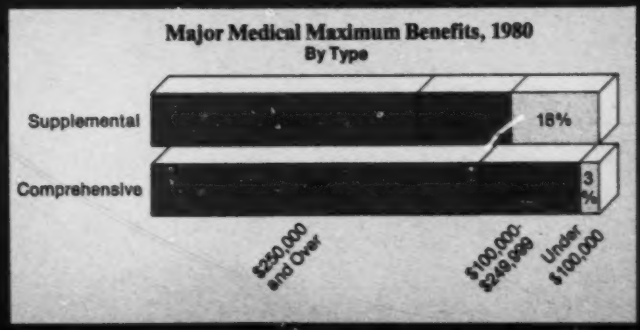
employee benefit planning has also resulted in the shift of the mandatory retirement age from 65 to 70.

Pregnancy has been legislatively defined as disability and, thus, subject to coverage under disability and health insurance plans, and under disability income plans. Health Maintenance Organizations have come into being in recent years as a result of the passage of the Health Maintenance Organization Act of 1973. It was expected that HMO's would offer a comprehensive approach to medical care at lower cost than conventional health insurance. Of the 1,368 companies surveyed, 41% now offer HMO membership as an alternative to conventional health insurance coverage. However, the median participation is only about 3% of employees.

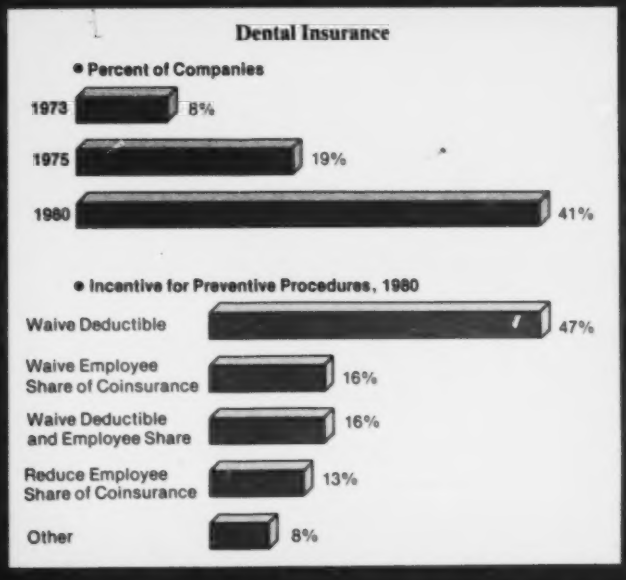




Fringe benefits have expanded substantially during the last decade, and major improvements have occurred in most of them. The increasing cost of health care, which outpaced the general rise in prices, led to some restructuring of health benefit plans. Comprehensive plans (in which an employee deductible applies to the first dollar of covered expense, and usually has to be paid before any benefits are paid by the plan) now account for almost half of all office employee plans, while in 1973, almost two thirds of the office employee plans offered a base plan supplemented with major medical coverage. One quarter of the surveyed companies have also introduced a "co-insurance cap," which limits the maximum expense an employee must bear during a benefit period. Also, the lifetime limit on the expenses covered by a plan was increased to a median of $250,000. In 1973, by contrast, just 10% of the plans specified amounts as high as $50,000 or more. Charges for semiprivate hospital accommodations



y Insurance



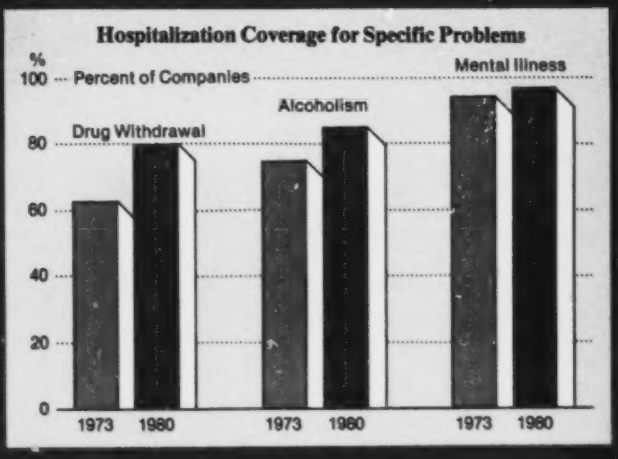
are now paid by a large majority of plans, and about one-half pay "reasonable and customary" surgical fees without dollar limitations. Dental insurance was offered by only 8% of companies in the 1973 survey, but is now carried by 41% of the surveyed companies.

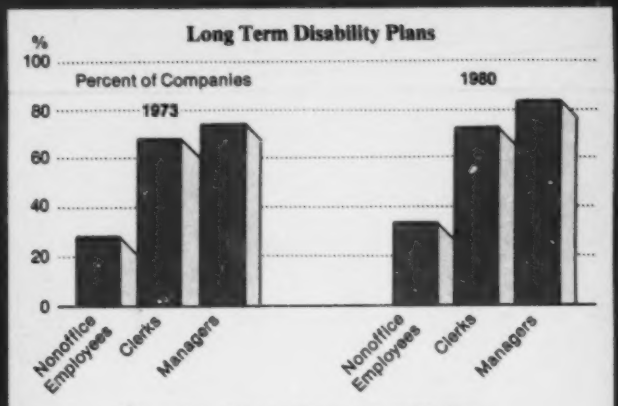
Pension benefit calculations have been affected by inflation and by changes in the social security benefit structure. Most firms today calculate retirement benefits on an employee's final average earnings, but a growing proportion (64%) of final pay pensions are subject to an offset for social security, compared with 40% in 1973. An increasing number of companies also offer plans designed to help employees accumulate capital.

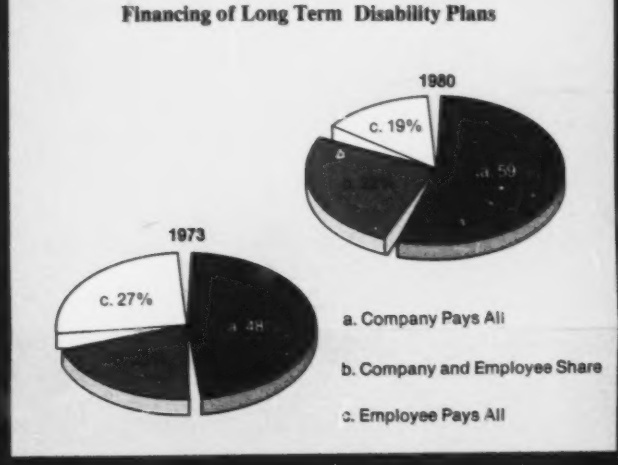
Vacation and holiday practices have also been liberalized since 1973. On the average, an additional day has been added to the number of paid holidays. Maximum annual vacations are getting longer, with 60% of companies offering five weeks or more. Service requirements are decreasing, providing longer vacations for relatively new employees.

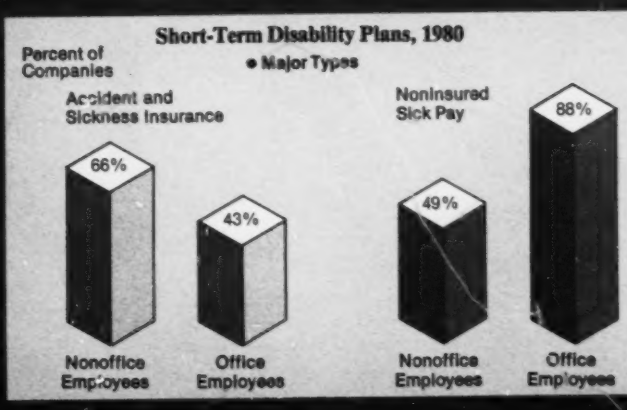
Eva Culen

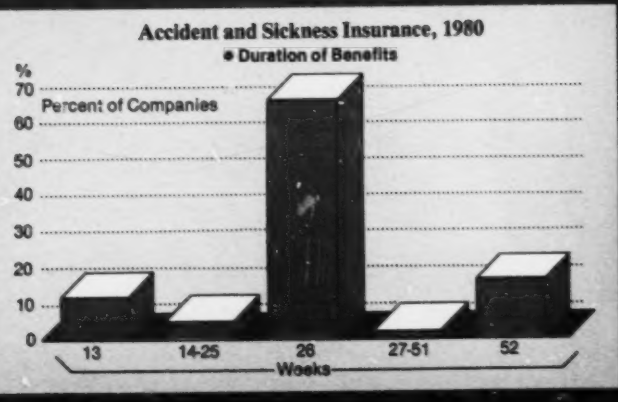
Sources: Bureau of Economic Analysis; M. Meyer, *Profile of Employee Benefits*. The Conference Board.



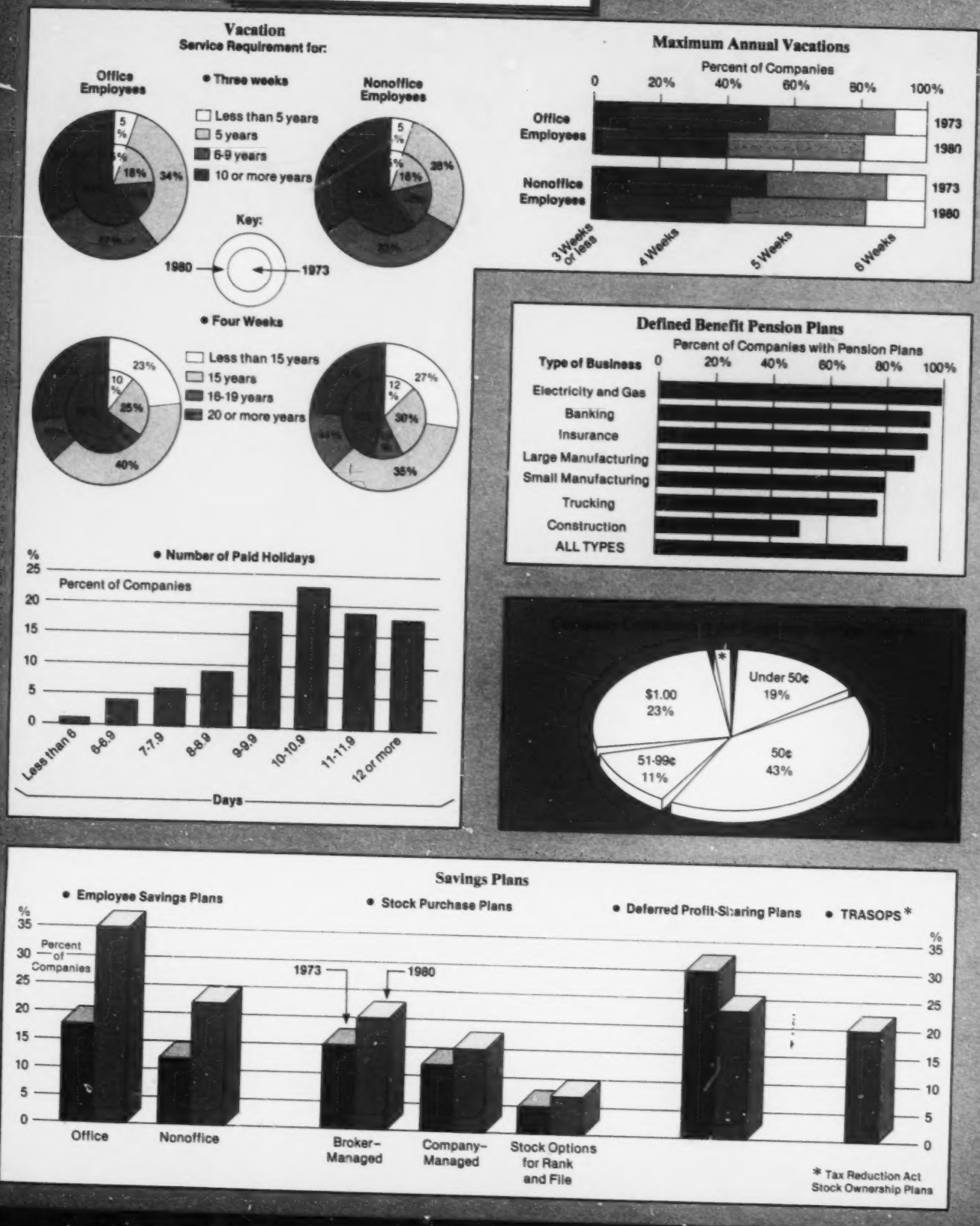








Vacations, Holidays, Retirement



ECONOMIC ROAD MAPS

Eva Galen, Editor

Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lou S. Rollins, Director

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Economic Road Maps
1981 Index

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ECONOMIC ROAD MAPS

Eva Culen, Editor — Chuck N. Tow, Chief Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director

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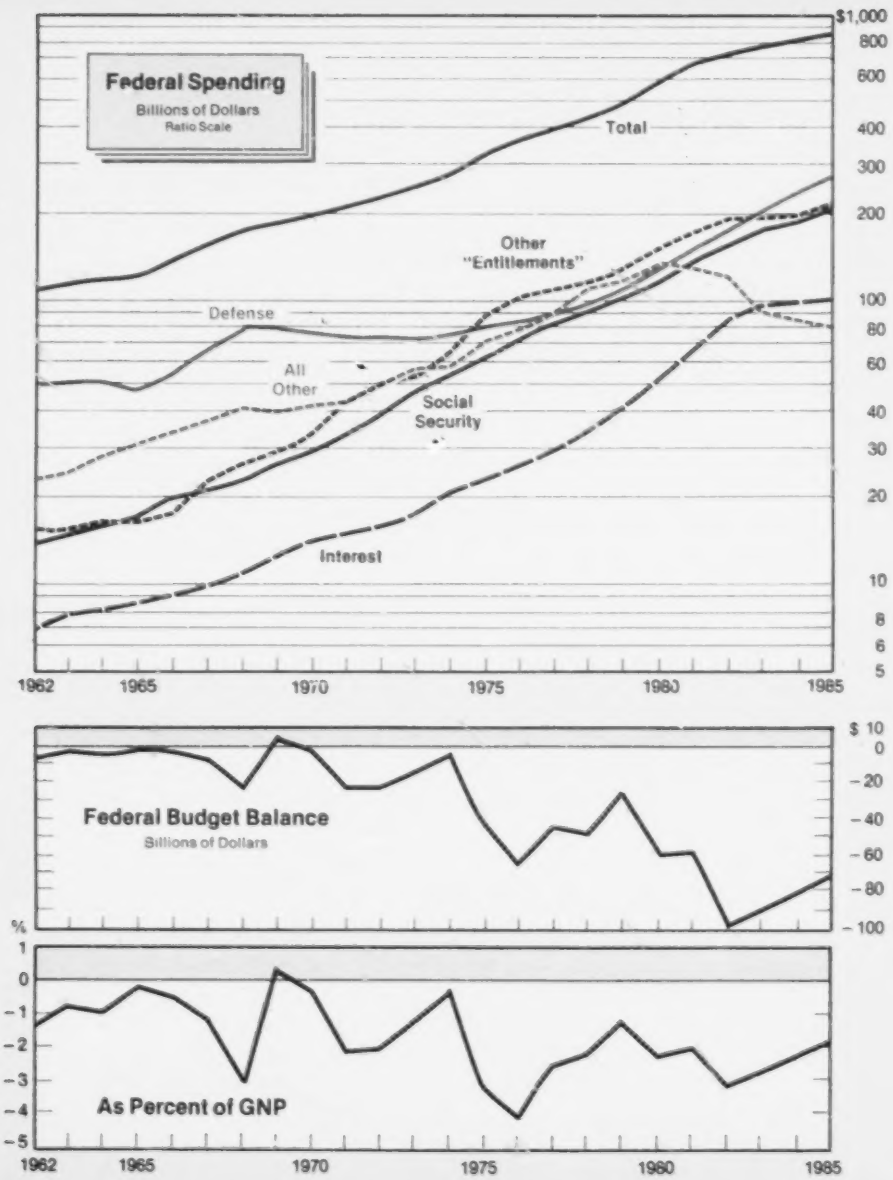
Federal Spending

Economic Road Maps
Nos. 1922-1923

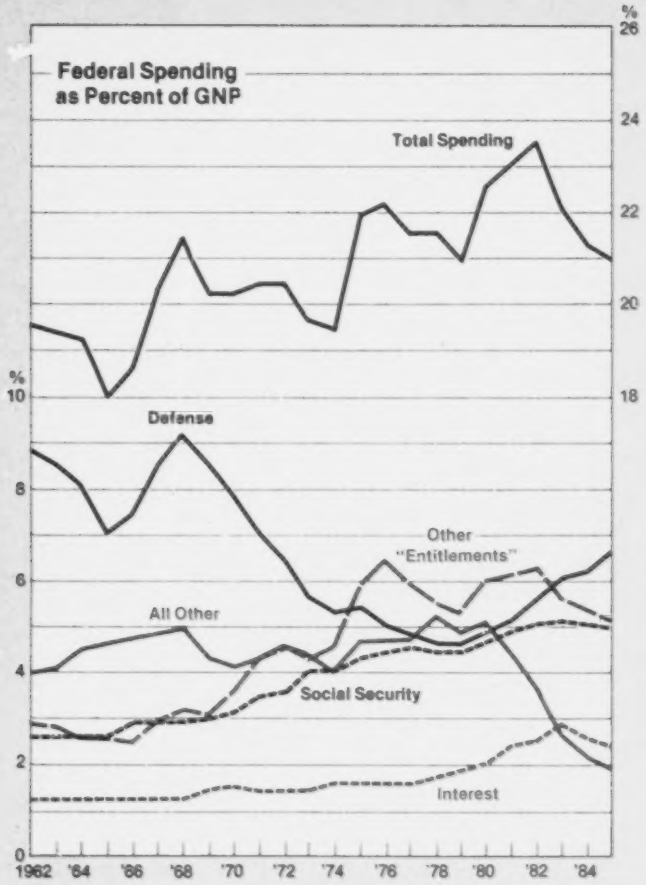
March, 1982

The President's budget message, sent to Congress in February, proposes total outlays of $758 billion in fiscal year 1983. Outlays in 1984 and 1985 are estimated at $806 billion and $868 billion, respectively. Actual outlays in fiscal 1981, which ended last September 30, were $657 billion; the current projection for fiscal 1982 is $725 billion. The President's proposals include a rapid rise in defense spending, a leveling of interest payments, continued growth in spending for social security and other so-called "entitlement" programs, and an outright decline in the aggregate of all other federal spending. This Road Map shows the proposed figures in the context of past trends, as an aid to understanding the budgetary debate that will be occurring this Spring.



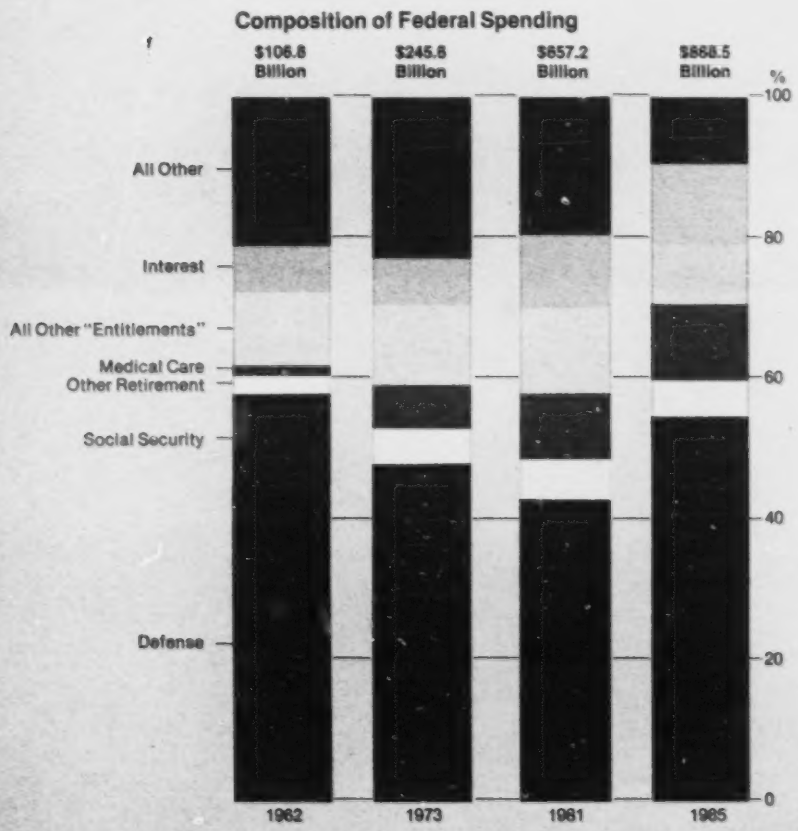
The budget proposes a deficit of $91.5 billion in 1983, to shrink to $71.9 billion by 1985. Because these are such big numbers, it helps to put them into perspective by relating them to GNP, which is the current market value of the nation's total production of goods and services. The post-World War II peak in the deficit/GNP ratio was 4.0% in fiscal 1976, in the wake of the 1974-1975 recession. The ratio will be about 3.2% in fiscal 1982 and is projected to drop to 1.9% by 1985. However, there has been criticism that the budget assumes too much GNP growth and too little inflation. If the assumptions are wrong, the deficit/GNP ratio will be higher. Many people believe that deficits are automatically inflationary; but, although deficits have indeed often brought about inflationary increases in total purchasing power, they need not do so. However, even if deficits are financed in a noninflationary way, they absorb saved resources that would otherwise probably go into expansion of the capital stock.

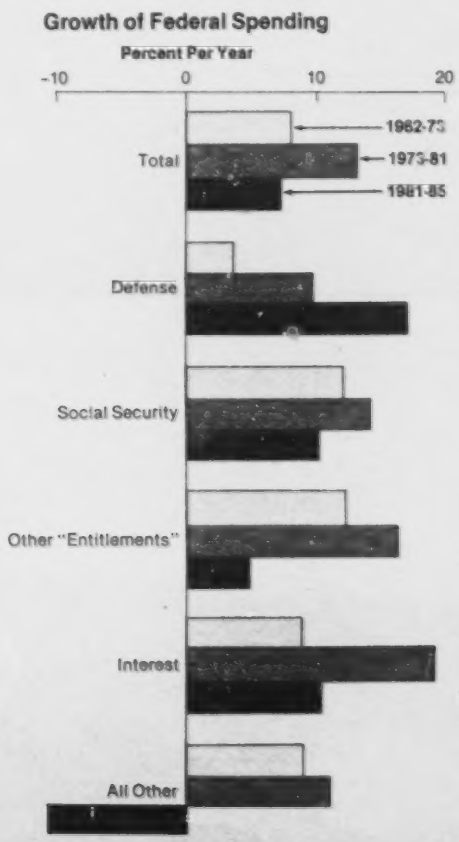
Until the mid-1970's, defense was the largest of the major categories into which federal spending is divided on the chart at the left and on other charts on page 2. Since then, however, defense spending growth has

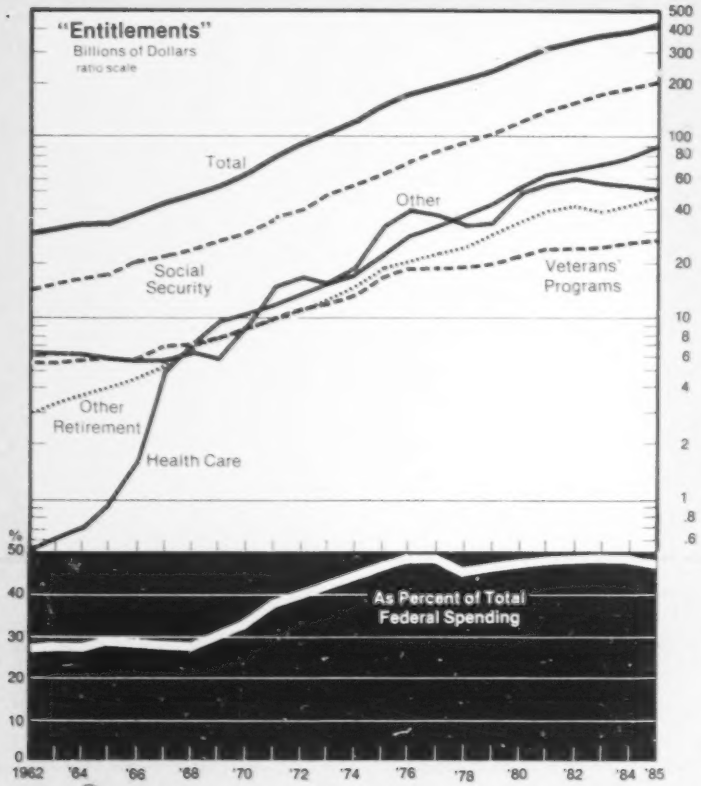


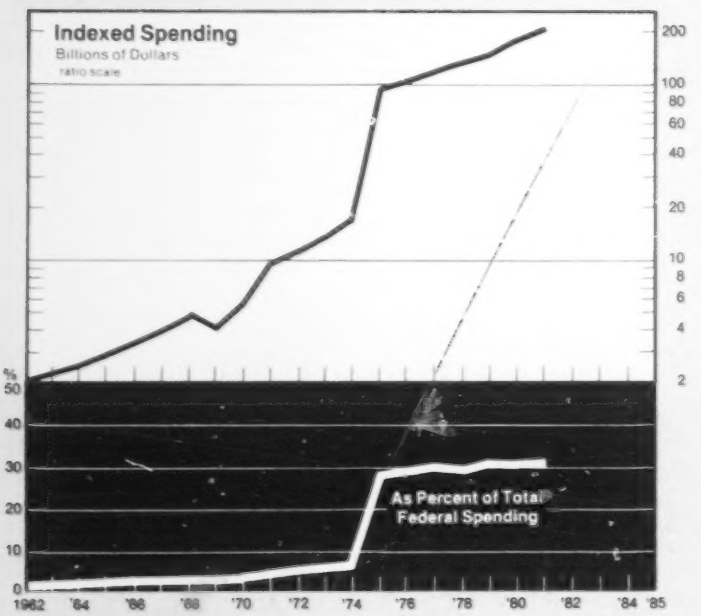
been slow while outlays on social programs have surged. The President's budget proposes to reverse this trend. As the chart at the lower right shows, defense spending growth is to accelerate to 17% per year in 1981-1985 while other spending categories either grow less rapidly than in the 1970's or decline outright. The chart at the top of page 4 breaks down the proposed defense increase into its major components. These proposals would bring the defense share of the budget to 31.5% in fiscal 1985, from 22.2% in 1981. To make room for this rise, the budget share of nondefense programs other than "entitlements" is to drop from 19.4% in 1981 to 9.2% in 1985 (chart at lower left).

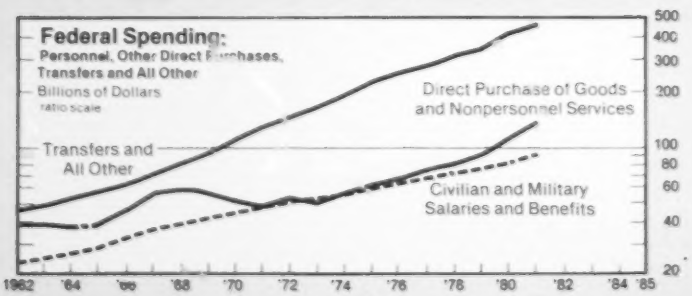
The ratio of total spending to GNP is projected at 23.5% in the current fiscal year, dropping then to 20.9% by fiscal 1985. This ratio moves up when the economy is weak, because spending is boosted by items such as unemployment compensation, while GNP is depressed. However, while the recent rise in the spending/GNP ratio is certainly in part cyclical, it also seems to reflect a more underlying trend. The defense/GNP ratio ran between 7% and 9½% from the end of the Korean War to the end of the 1970's, then declined to 4.6% in fiscal 1978 and 1979. The President's proposals would move it to 6.6% by 1985. These defense calculations exclude military retirement, which is part of defense in the offical budget. These costs (about ½% of GNP) are here included in spending for "entitlement" programs.








Indexed Spending
Billions of Dollars
ratio scale
%
As Percent of Total Federal Spending
1962 '64 '66 '68 '70 '72 '74 '76 '78 '80 '82 '84 '85


Federal Spending:
Personnel, Other Direct Purchases, Transfers and All Other
Billions of Dollars
ratio scale
Direct Purchase of Goods and Nonpersonnel Services
Transfers and All Other
Civilian and Military Salaries and Benefits
1962 '64 '66 '68 '70 '72 '74 '76 '78 '80 '82 '84 '85

Estimated Expenditure on "Entitlement" Programs Fiscal Year 1981

Billions of Dollars

Social security	138.0
Federal civilian retirement	17.5
Military retirement	13.7
Other retirement & disability[1]	7.0
Veterans' compensation, medical care, pensions, other benefits	23.0
Medicare & medicaid	60.4
Unemployment compensation	19.7
Food stamps & other nutrition aid	16.2
Other aid for the needy[2]	19.7
	315.2

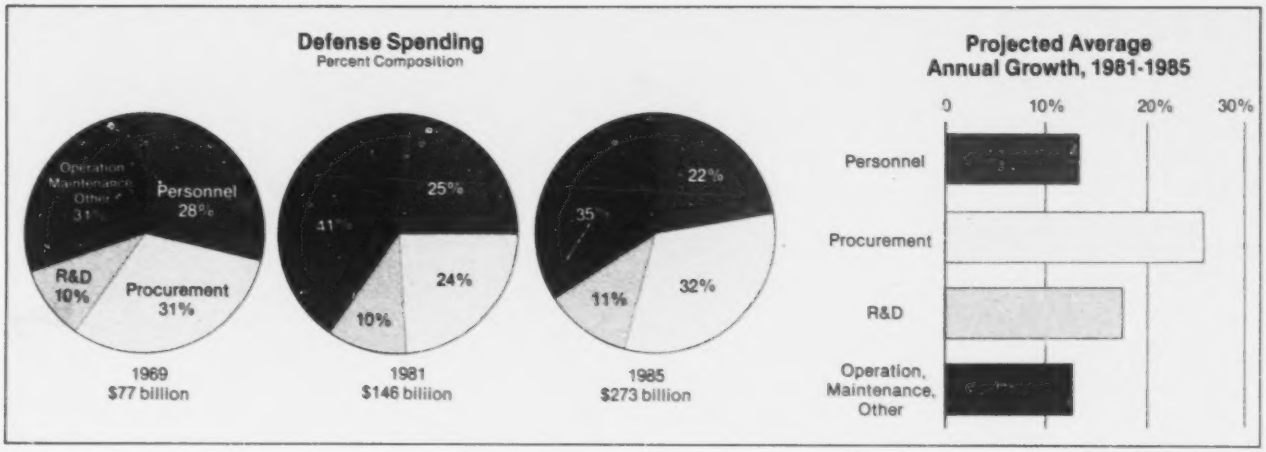
[1]Mainly railroad retirement and coal miners' disability.
[2]Mainly Aid to Families with Dependent Children, Supplemental Security Income and the Earned Income Credit on income taxes.

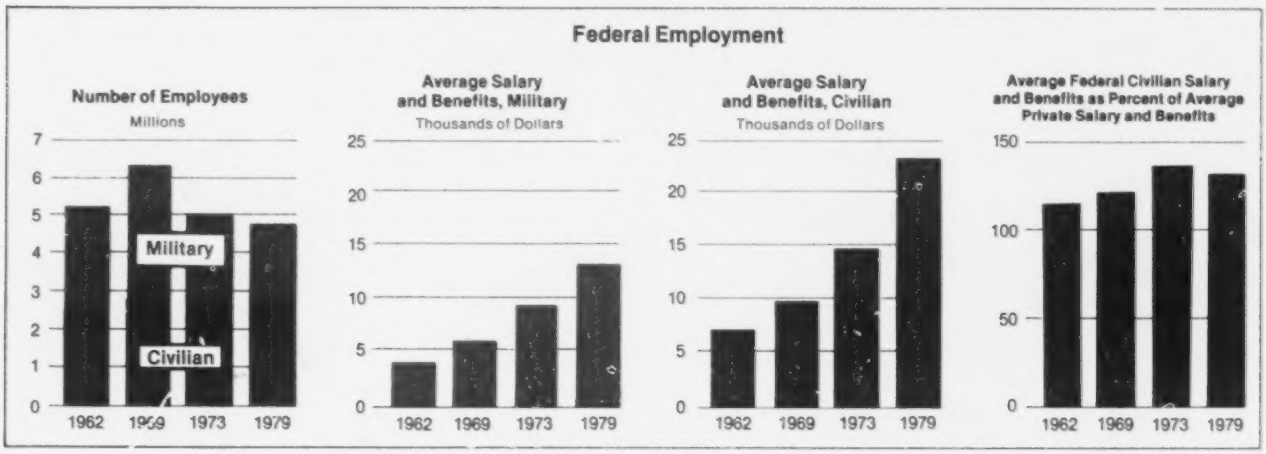
Expenditure on Major Programs that are Currently Indexed

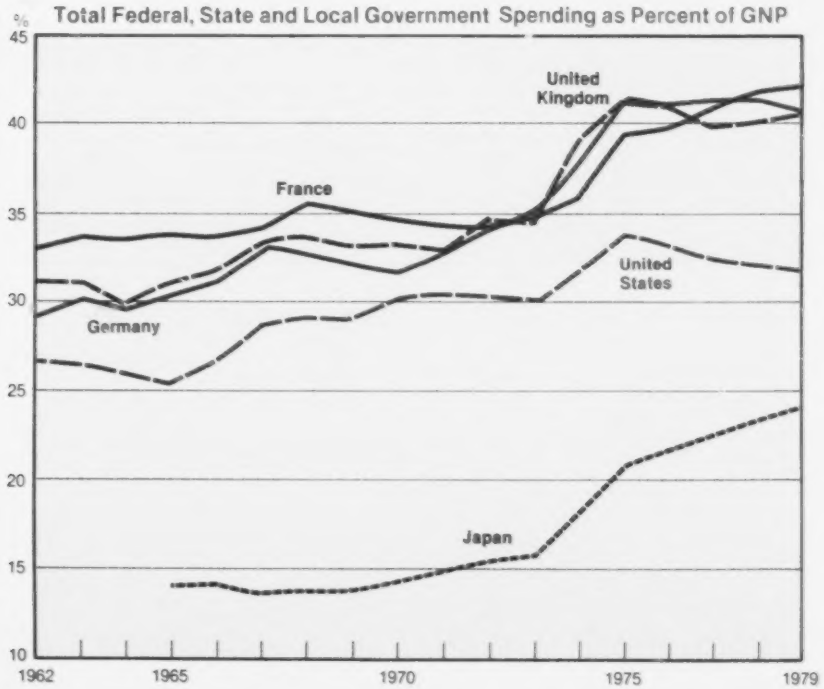
Billions of Dollars

	1969	1973	1981
Federal civilian retirement	1.8	4.5	17.5
Military retirement	2.4	4.4	13.7
Coal miners' disability	—	1.0	1.1
Food stamps & other nutrition aid	0.6	3.6	16.2
Social security	26.8	48.3	138.0
Railroad retirement	1.5	2.4	5.3
Supplemental security income	—	—	7.2
Veterans' pensions	2.1	2.6	3.8
Indexed total	4.2	13.5	202.8

The term "entitlements" is common in discussions of public spending, but there is no rigorous definition of just which Federal programs should be so characterized. The idea is that benefits are available automatically to persons who meet the criteria set in the relevant legislation. The table above lists 1981 outlays on programs that appear to provide "entitlement" benefits, and the chart carries the data back over the years. Problems of data availability forced the inclusion of some outlays, mainly for nutrition aid and some veterans' benefits, that are not really "entitlements", but these inclusions do not warp the broad picture. "Entitlements were 48% of federal







outlays in 1981. Some analysts would put federal interest payments in the "entitlement" category; on that basis, the 1981 budget share of "entitlements" was 58%, compared with 35% in the late 1960's. One reason for the surge in "entitlements" has been the development of indexation that automatically raises benefits according to a formula related to inflation. At the end of the 1960's, indexation affected only federal civilian and military retirement benefits, which were less than 3% of the budget. Social security was indexed in 1975, and by fiscal 1981, total indexed spending was $203 billion or 31% of the budget.

Lora S. Collins

Source: Office of Management and Budget, Bureau of Economic Analysis; OECD; The Conference Board.

ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
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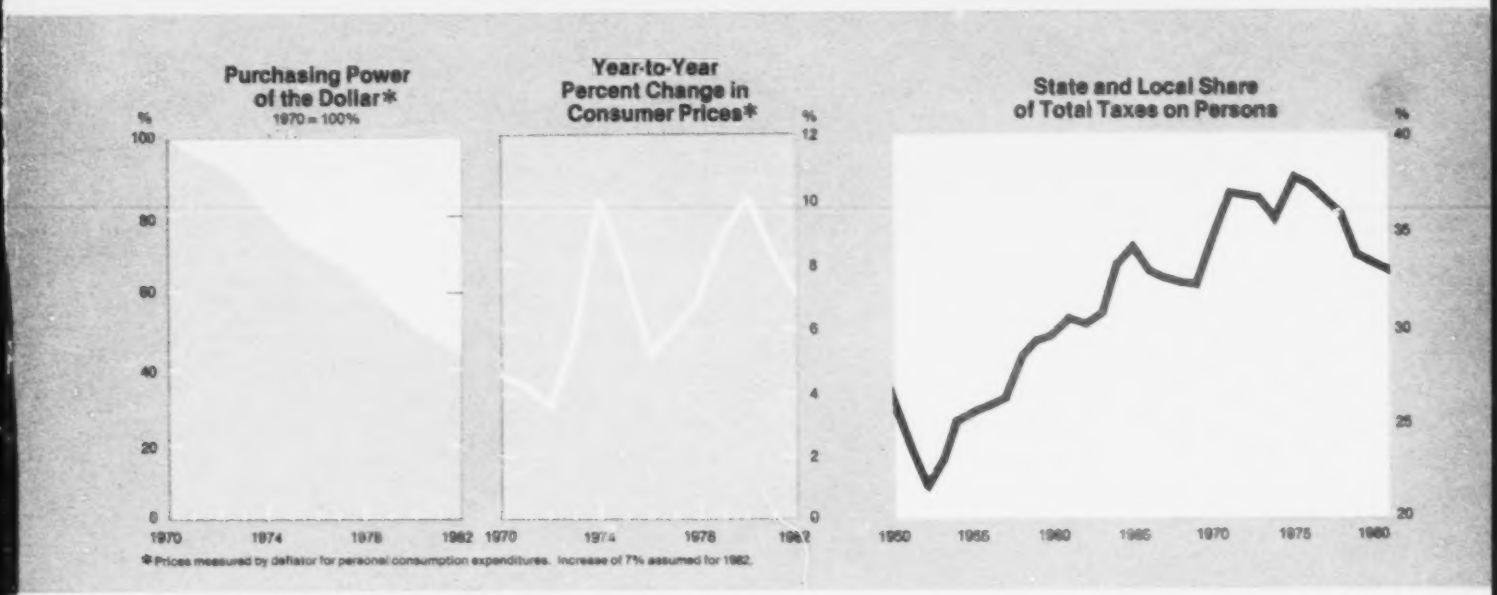
The Conference Board

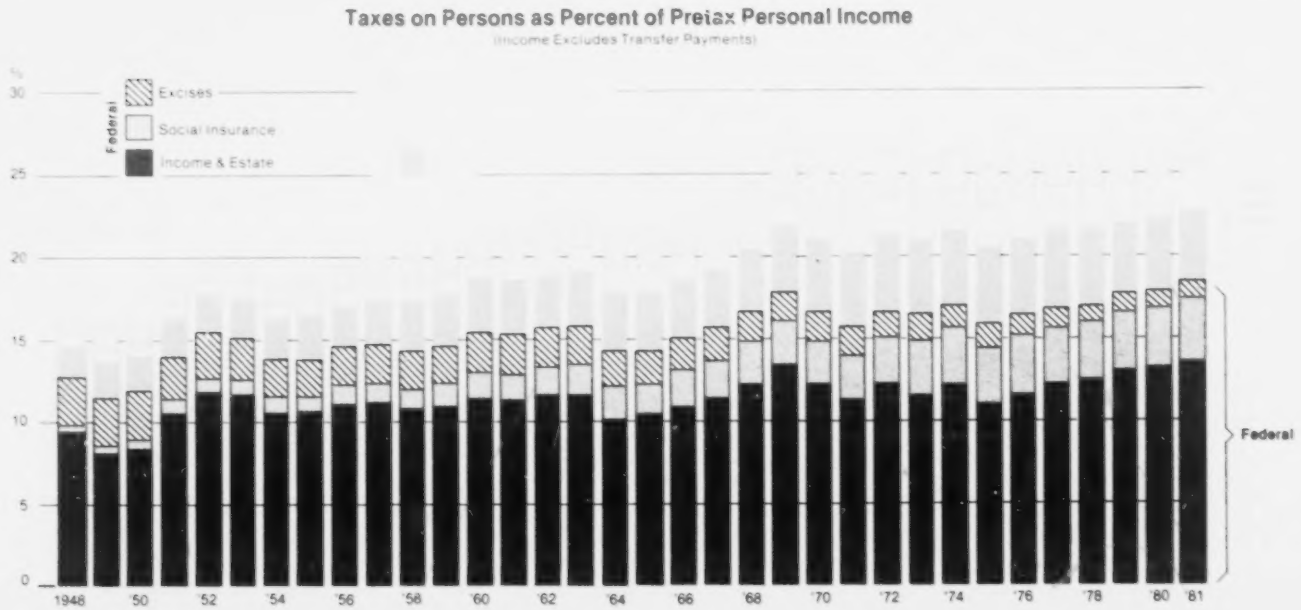
The Two-Way Squeeze, 1982

Economic Road Maps
Nos. 1924-1925

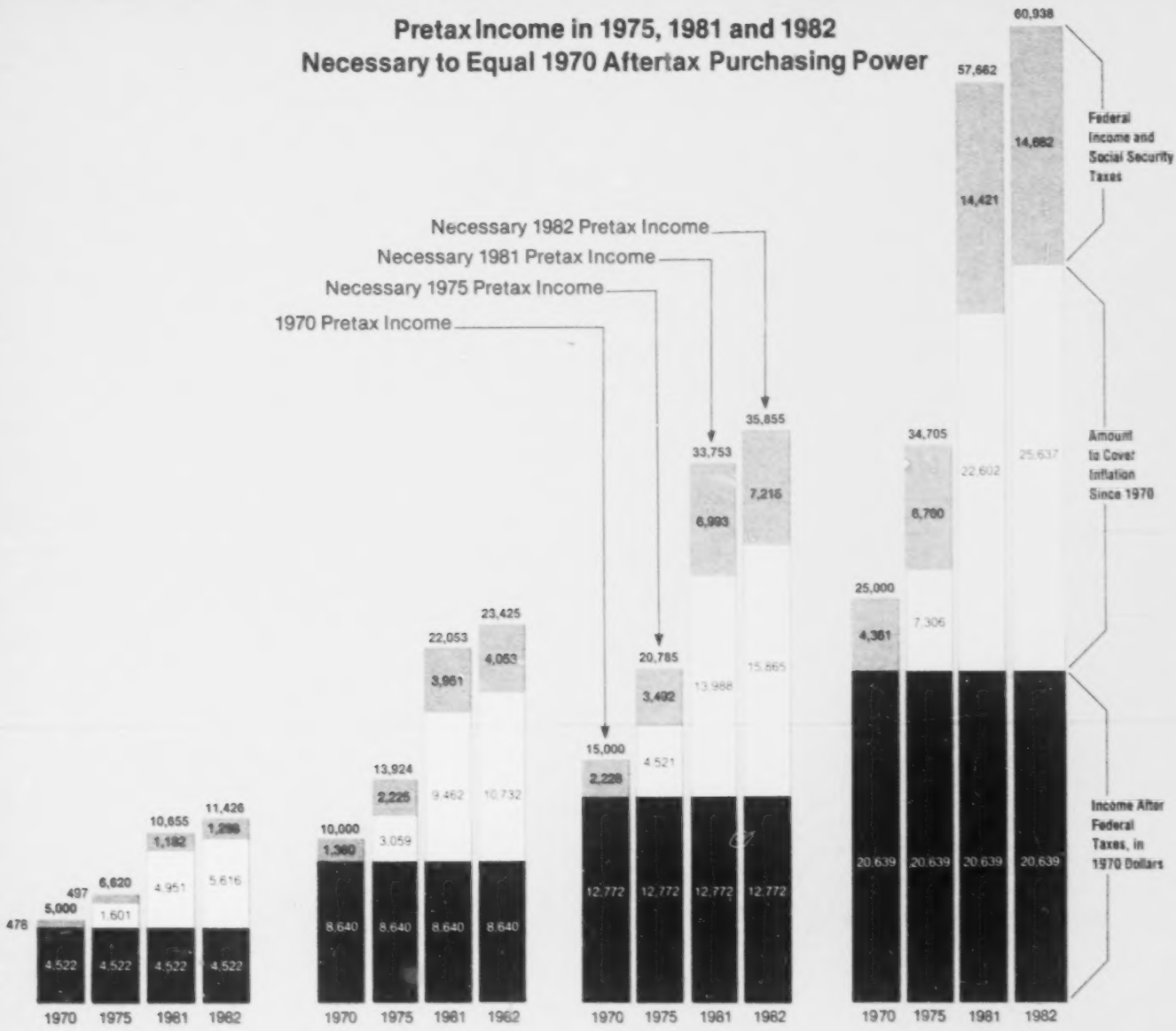
April, 1982

The inflation rate will almost certainly be lower in 1982 than in 1981. For the calculations presented here, the 1982 rise in the consumer price level is projected at 7%, compared with 8.3% in 1981 and 10.2% in 1980. However, even with the expected slowdown, a dollar in 1982 will have only 45% of the purchasing power that a dollar had in 1970. If a family had a $10,000 income in 1970—about the average then—it needs $23,425 this year to have the same after-tax real purchasing power it had then (page 2). The share of this hypothetical family's income taken by federal income taxes has risen from 9.9% in 1970 to 12.0% this year, while Social Security taxes have gone from 3.7% to 6.7% (page 3). These calculations relate only to federal taxes, because state-local taxes vary so greatly among jurisdictions.





Pretax Income in 1975, 1981 and 1982 Necessary to Equal 1970 Aftertax Purchasing Power

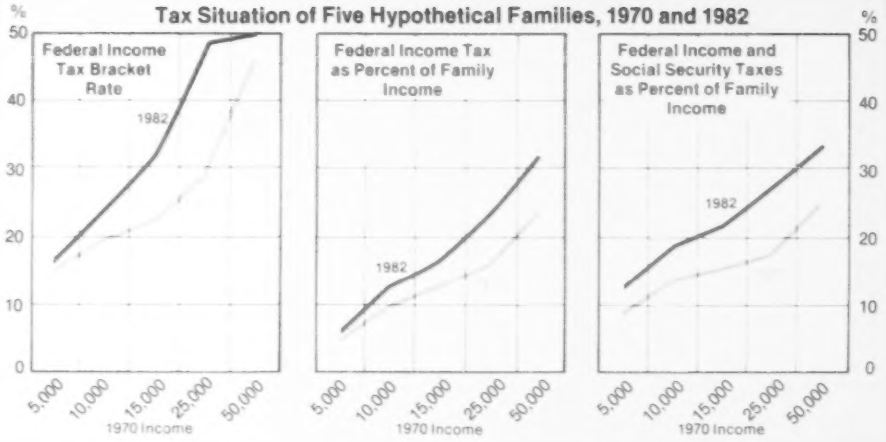


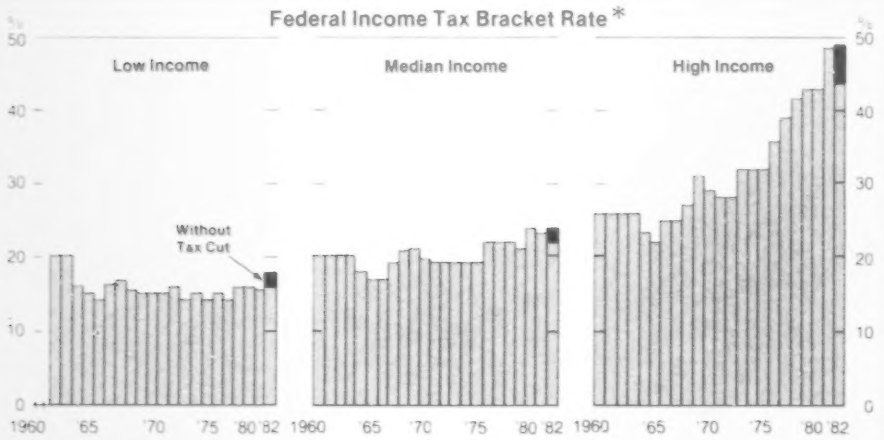
1970 PRETAX INCOME	$ 5,000	$10,000	$15,000	$25,000	$ 50,000
Less: Federal income tax	238	986	1,854	3,987	11,982
Less: Social security tax	240	374	374	374	374
Equals: Income after federal taxes	4,522	8,640	12,772	20,639	37,644
1975 NECESSARY PRETAX INCOME	6,620	13,924	20,785	34,705	70,592
Less: Federal income tax	110	1,411	2,667	5,935	18,797
Less: Social security tax	387	814	825	825	825
Less: Amount to cover inflation since 1970	1,601	3,059	4,521	7,306	13,326
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644
1981 NECESSARY PRETAX INCOME	10,655	22,053	33,753	57,662	116,627
Less: Federal income tax	473	2,484	5,018	12,446	35,783
Less: Social security tax	709	1,467	1,975	1,975	1,975
Less: Amount to cover inflation since 1970	4,951	9,462	13,988	22,602	41,225
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644
1982 NECESSARY PRETAX INCOME	11,426	23,425	35,855	60,938	122,873
Less: Federal income tax	522	2,484	5,047	12,491	36,298
Less: Social security tax	766	1,569	2,171	2,171	2,171
Less: Amount to cover inflation since 1970	5,616	10,732	15,865	25,637	46,760
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644

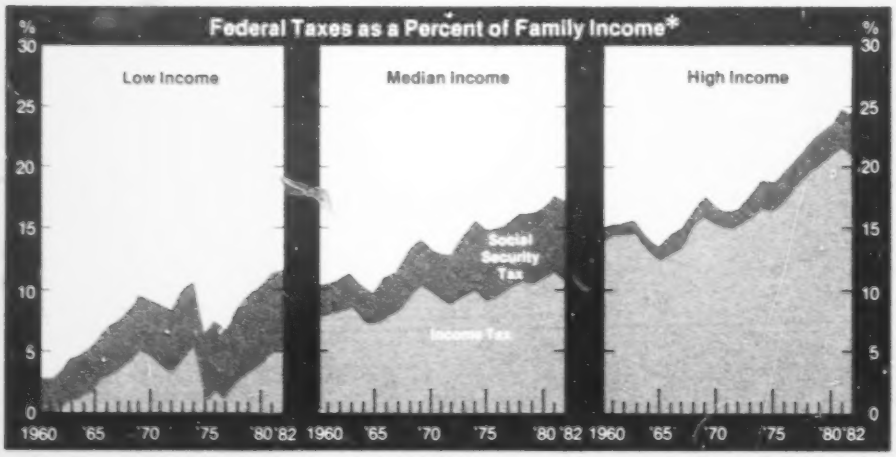
Federal income and social security taxes are computed for a married couple, only one of whom works, with two children. No allowance is made for any other taxes. Calculations use the tax laws in effect each year. Deductible items are assumed to equal 17% of pretax income in 1970, 20% in other years. For calculating maximum tax and earned income credit, all income is assumed to be earned, personal service income. Inflation is calculated from the deflator for personal consumption spending, with a 7% rise assumed from 1981 to 1982.

The chart on page 2 shows income before and after federal taxes for hypothetical families at selected income levels. The 1970 incomes of $5,000, $10,000, $15,000, and $25,000 represent approximately the 20th, 50th, 80th, and 95th percentile points in the income distribution that year. The family that had $10,000 then needs $23,425 in 1982 to have the same real after-tax income, a rise of 134%; the necessary 1970-1982 increases for the other families range from 128% for the one with a $5,000 income in 1970 to 146% for the one with $50,000 then. (The assumptions are outlined in the note on page 2). As the first panel of the chart immediately to the right shows, "tax bracket creep" has affected the hypothetical families at all five income levels,

Effect of 1982 Tax Cut					
1970 Pretax Income	$ 5,000	$10,000	$15,000	$25,000	$ 50,000
Necessary 1982 Pretax Income	11,426	23,425	35,855	60,938	122,873
Necessary 1982 Pretax Income, Assuming No Tax Cut	11,530	23,823	36,625	63,209	126,588







*Family income each year at the 20th, 50th, and 95th percentiles of the family income distribution. Income levels estimated for 1981 and 1982. Calculations assume 4-person family with one earner, as stated in table on page 2.

but has been most severe for upper-middle incomes. For instance, the family with $25,000 in 1970 was in the 28% bracket then; in 1982, if it has the $60,938 that is necessary to match its 1970 after-tax purchasing power, it is in the 49% bracket.

The calculations presented on page 2 and at the top of this page refer to hypothetical families. Actual family incomes have increased, on average, somewhat faster than the "necessary" increases calculated for the hypothetical families. This was true at least through 1980, the latest year for which data are available; in that year, the median family income was $21,023. The charts at the left show the income tax bracket rate, and taxes as a percent of income, for families whose income each year is at the 20th percentile of the income distribution ("low income"), the 50th percentile (median), and the 95th ("high income"). The 1981 and 1982 incomes are estimates. The income tax burden on the low-income family dropped in 1975 with the introduction of the earned income credit (EIC) for low-earning workers. The income

Changes in Federal Personal Income Tax Structure

1964: Minimum standard deduction increased. Taxable income bracket ranges increased and bracket rates cut.

1968: General tax surcharge of 7½%.

1969: General tax surcharge of 10%.

1970: General tax surcharge of 2½%. Personal exemption raised from $600 to $625.

1971: Personal exemption raised from $625 to $675. Minimum and percentage standard deductions increased. Maximum tax bracket rate on "earned" income set at 60%.

1972: Personal exemption raised from $675 to $750. Minimum and percentage standard deductions increased. Maximum tax bracket rate on "earned" income cut to 50%.

1975: Minimum and percentage standard deductions increased. Earned Income Credit for low-earning workers introduced. General tax credit of $30 per exemption.

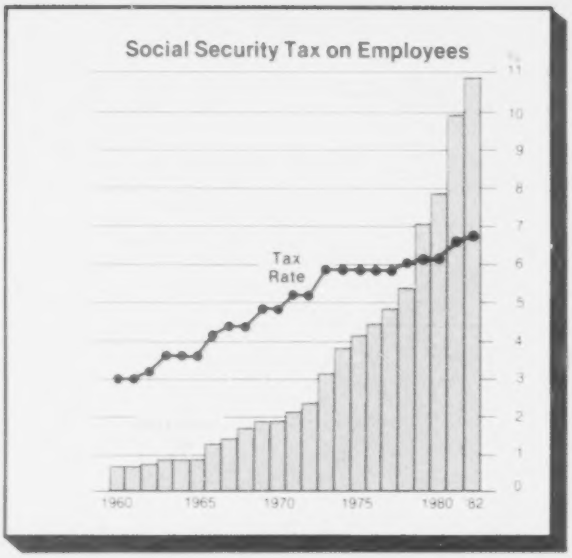
1976: Minimum and percentage standard deductions increased. General tax credit changed to $35 per exemption or 2% of taxable income up to $9,000.

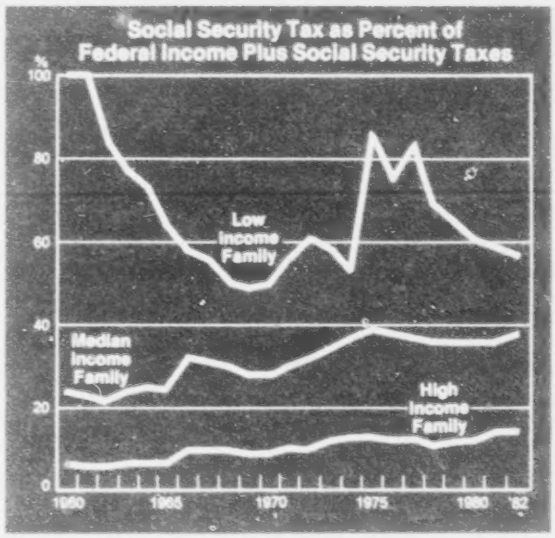
1977: Standard deduction increased and made a flat amount. Personal exemption raised from $750 to $1,000.

1979: Flat standard deduction increased. Taxable income bracket ranges increased and bracket rates cut. Earned Income Credit increased. General tax credit eliminated.

1981: Tax bracket rates cut.

1982: Tax bracket rates cut.





tax burden on this family has since risen because the EIC first shrank, then disappeared, as the money income of the family at the 20th percentile point rose. The EIC shrinks as family income moves up and disappears at an income of $10,000.

Social Security taxes have been escalating, as the chart at the upper right shows. For the low-income family, these taxes are dominant. In 1975, when the family's income tax burden was cut by introduction of the EIC, the Social Security tax accounted for over 80% of its total federal taxes (see chart above). Even after the recent rise in the income tax burden on this family, the Social Security tax is almost 60% of its 1982 federal taxes.

While the Social Security tax structure has trended upward, the income tax structure has been repeatedly cut. The table above summarizes the changes beginning in 1964. In 1963, the standard deduction was 10% of income to a maximum of $1,000, the personal exemption was $600, the first tax bracket for couples was 20% on taxable income below $4,000, and the third bracket was 26% on taxable income from $8,000 to $12,000. In 1982, the standard deduction is a flat $3,400 for a couple, the personal exemption is $1,000, the first bracket for couples is 12% on taxable income from $3,400 to $5,500, and taxable income has to reach the range $20,200 to $24,600 before the bracket rate reaches 25 percent.

Lora S. Collins

Sources: Bureau of the Census; Bureau of Economic Analysis; Internal Revenue Service; The Conference Board.

ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department – Lora S. Collins, Director
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Corporate Profits 1981

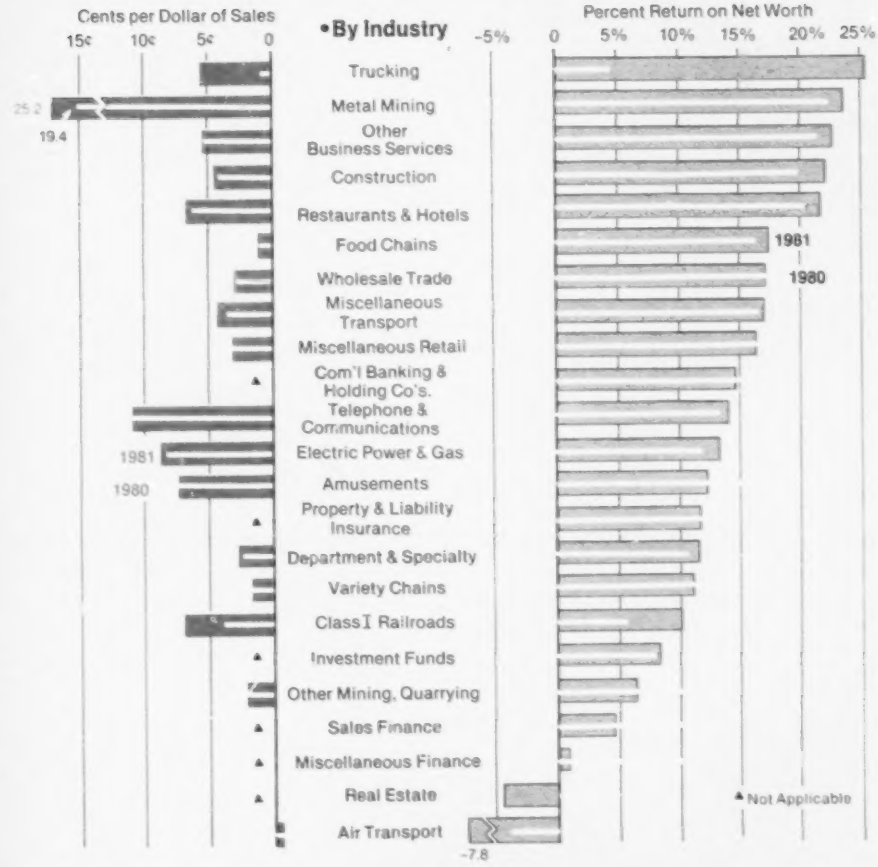
Economic Road Maps
No. 1926

May, 1982

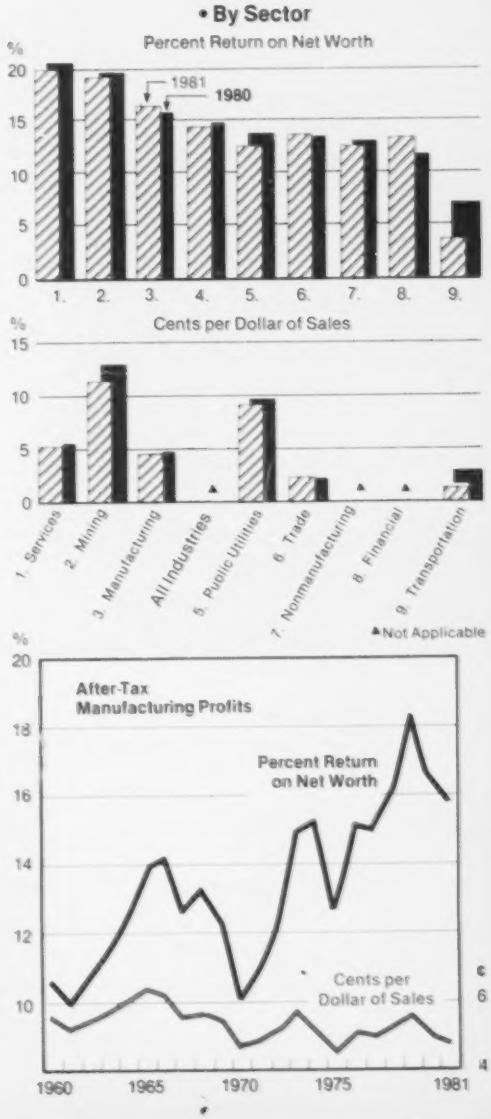
Total after-tax profits of major U.S. corporations advanced 9% from 1980 to 1981, according to the latest annual Citibank survey of profits. Nonmanufacturing corporations' profits were up 14% in 1981, while manufacturing profits increased 6 percent. In spite of a sluggish economy, high interest rates, and a strong dollar, the bulk of companies covered in the survey reported improved after-tax profits in 1981. Companies in the survey had profits of $129 billion on aggregate net worth of $889 billion. The 1981 return on manufacturers' net worth averaged 15.7% compared with 16.5% in 1980, and the average profit margin dipped to 4.8 cents per dollar of sales from 4.9 cents in 1980. Excluding the oil industry, the rate of return rose from 13.4% in 1980 to 14%, and the profit margin went from 4.4 cents to 4.6 cents.

Profits After Taxes - Nonmanufacturing

Leading Corporations



The Profit Picture



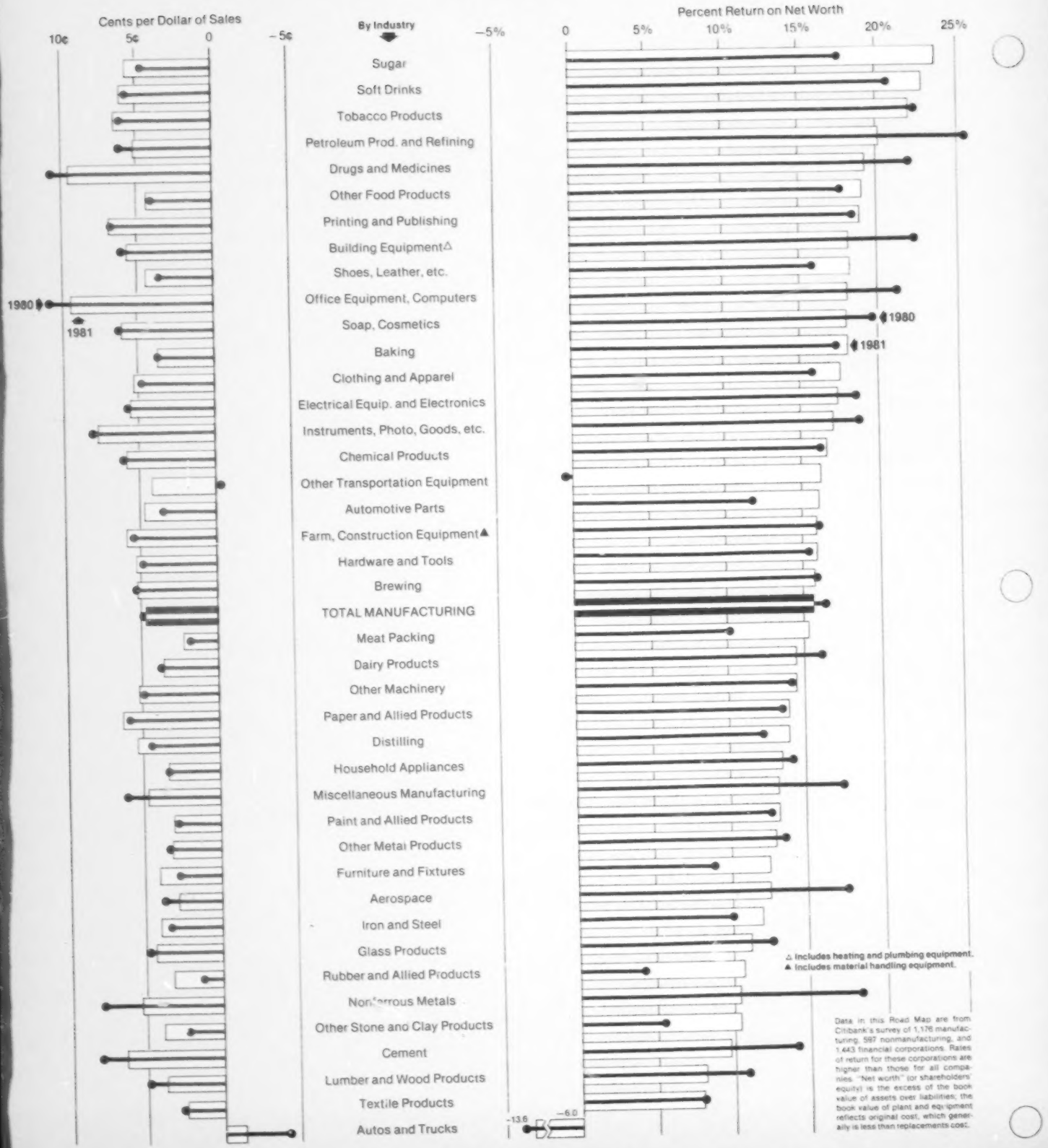
As in 1980, the automobile and petroleum industries again dominated the profit picture. The car and truck manufacturers lost $1.7 billion, a substantial improvement over the $4.6 billion deficit in 1980. The petroleum industry, which accounts for 35% of all manufacturing profits, had a 6% decline in after-tax profits despite a sales increase of 11 percent.

Sources: Citibank; The Conference Board.

Eva Culen

Profits After Taxes—Manufacturing

Leading Corporations



△ Includes heating and plumbing equipment.
▲ Includes material handling equipment.

Data in this Road Map are from Citibank's survey of 1,176 manufacturing, 597 nonmanufacturing, and 1,443 financial corporations. Rates of return for these corporations are higher than those for all companies. "Net worth" (or shareholders' equity) is the excess of the book value of assets over liabilities; the book value of plant and equipment reflects original cost, which generally is less than replacements cost.

ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service.

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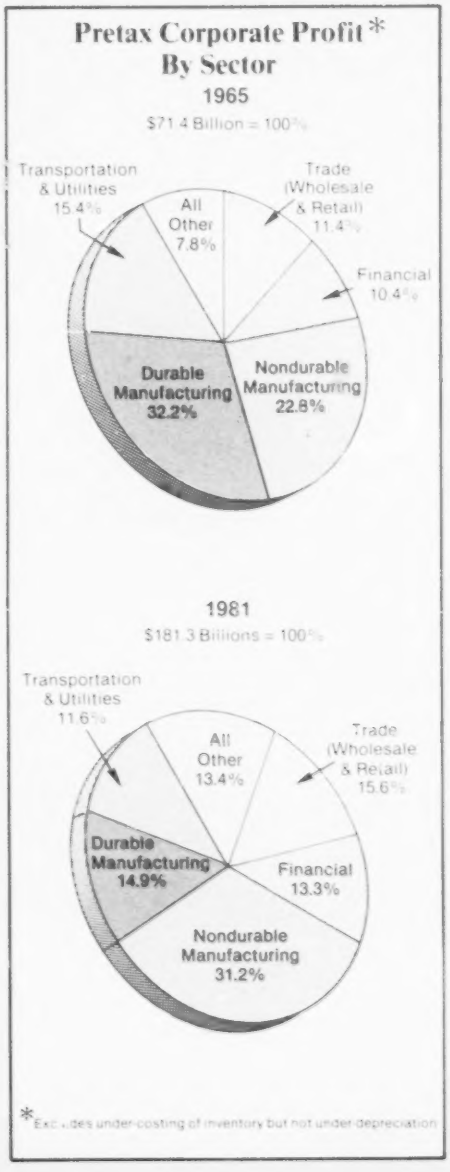
Profit Trends

Economic Road Maps

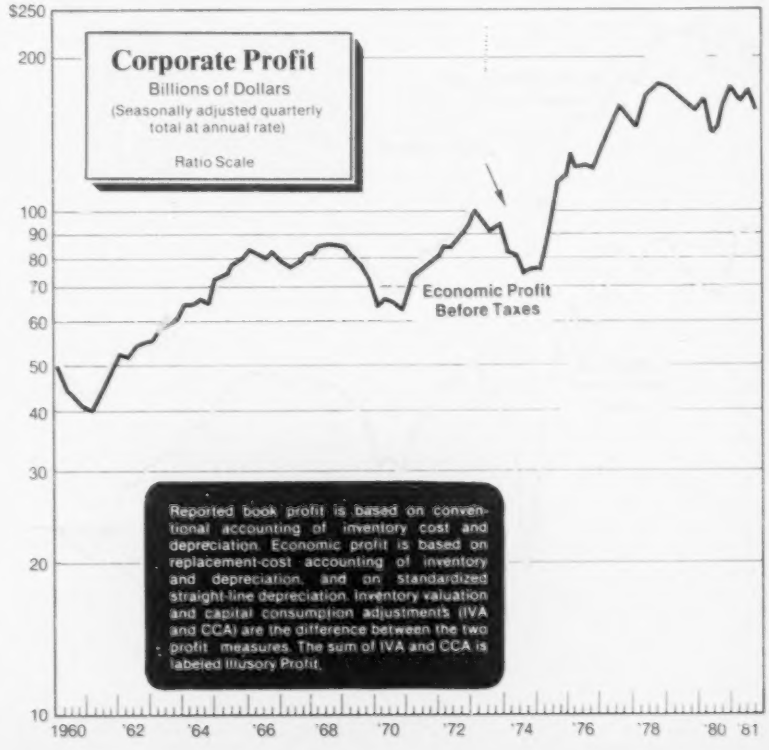
No. 1927 May, 1982

Corporations reported $209 billion in pretax profit on operations in the United States in 1981, down from $214 billion in 1980 and considerably lower than the $225 billion in 1979. However, the "illusory" portion of profit in the reported total was smaller in 1981 than in 1980, and the amount of true "economic" profit increased substantially—to $168 billion from $152 billion in 1980. Illusory profit results from the underdepreciation of fixed capital and undercosting of inventories, using conventional accounting methods. They are reported to shareholders as profit, and taxes are paid on them, but are not actually available for dividend payout or reinvestment in new plant and equipment. Economic profit, adjusted to eliminate the undercosting of production, recovered in 1981, but only back to levels reached in 1978 and 1979.

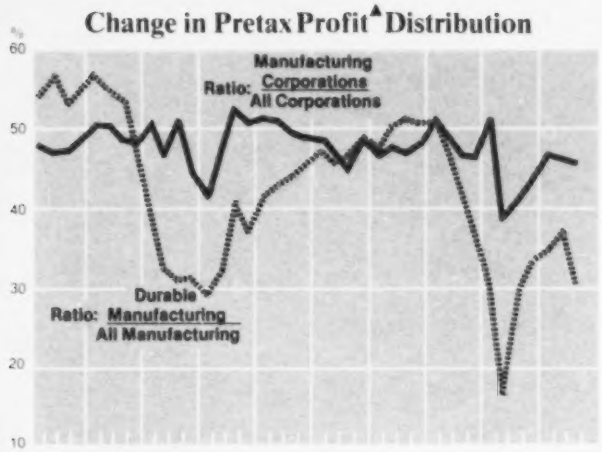


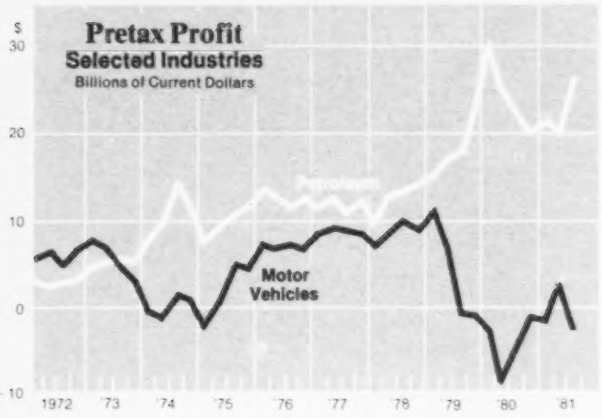
The understating of costs, which generates illusory profit, results from the way in which conventional accounting methods deal with inflation. As shown on the chart below, the illusory portion of total profit increased—that is, the difference between reported and economic profit widened—in 1973-1974 and again in 1978-1979, periods when inflation accelerated sharply. In 1975, a severe recession resulted in slower sales and a modest drop in reported profit. However, inflation subsided in the recession and, consequently, the illusory portion of reported profit shrank. The same thing has happened in the last year as the pace of the economy slowed and inflation abated.

The charts on the right side of back page show profit in relation to revenue from sales to end users; that is, revenue excluding transactions within the corporate sector. These data show substantial


Corporate Profit
Billions of Dollars
(Seasonally adjusted quarterly total at annual rate)
Ratio Scale
$250
200
100
90
80
70
60
50
40
30
20
10
Economic Profit Before Taxes
Reported book profit is based on conventional accounting of inventory cost and depreciation. Economic profit is based on replacement-cost accounting of inventory and depreciation, and on standardized straight-line depreciation. Inventory valuation and capital consumption adjustments (IVA and CCA) are the difference between the two profit measures. The sum of IVA and CCA is labeled Illusory Profit.
1960 '62 '64 '66 '68 '70 '72 '74 '76 '78 '80 '81

Change in Pretax Profit▲ Distribution





▲Excludes under-costing of inventory but not under-depreciation

short-term fluctuations due to the business cycle, but the declining trend in the pretax profit ratio is of more significance. As a partial offset to this trend, the effective tax rate on corporate profit had begun to decline long before the latest round of tax cutting.

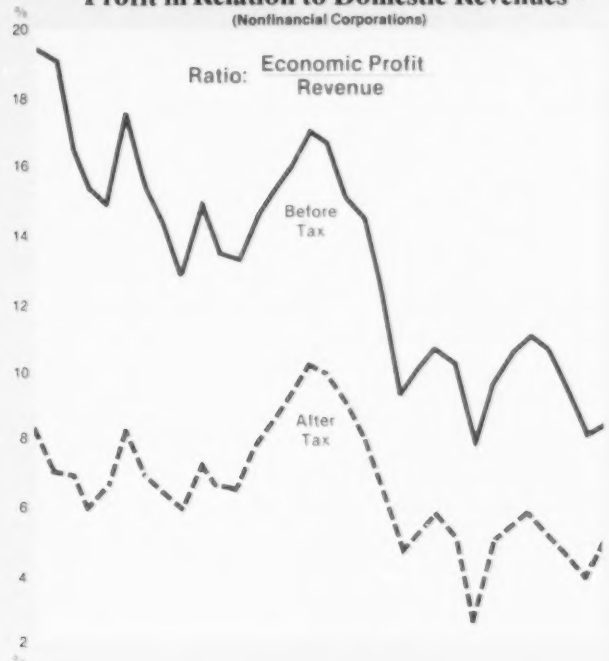
Declining profitability has resulted in reduced availability of internal funds for investment in modernization or expansion of facilities. Therefore, corporations have resorted increasingly to borrowing to finance investment. The lower chart shows the sum of economic profit after tax plus net interest payments as a ratio to revenue. This ratio is not affected by whether corporations, as a whole, choose debt or equity financing. It shows less cyclical fluctuation than the ratio of economic profit alone, and no long-term decline.

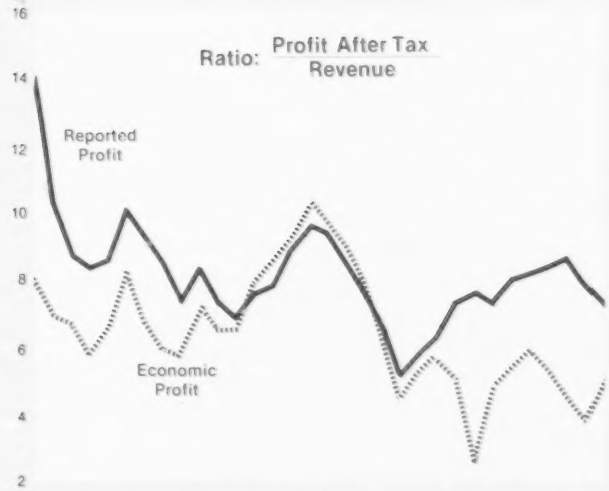
Ken Goldstein

Sources: Bureau of Economic Analysis; The Conference Board.

Profit in Relation to Domestic Revenues*

(Nonfinancial Corporations)





*Gross domestic corporate product (which excludes revenue from intracorporate transactions)

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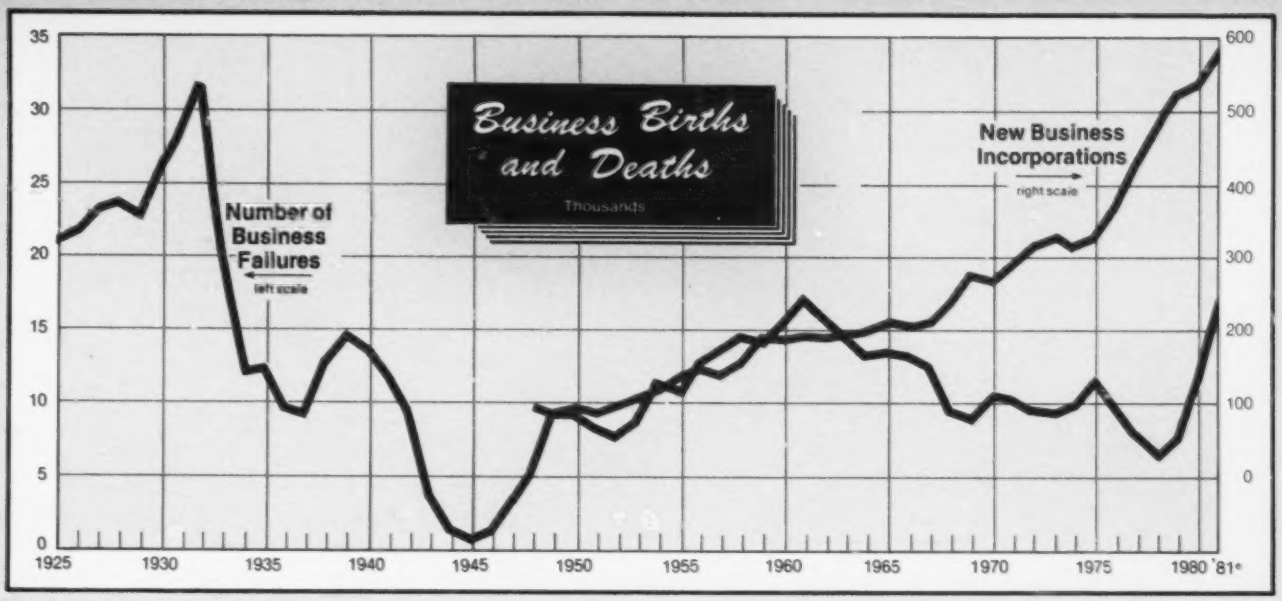
The Conference Board

Business Failures

Economic Road Maps

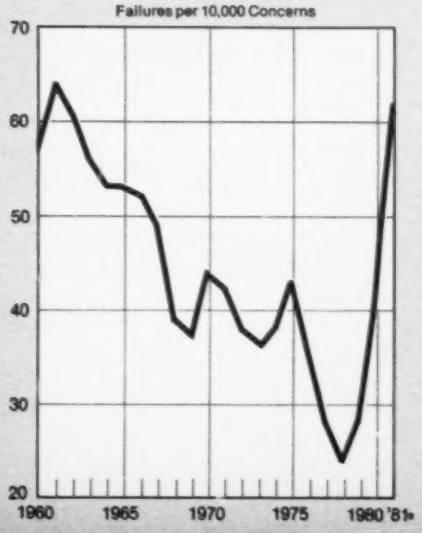
Nos. 1928-1929 June, 1982

Exceptionally high interest rates, coupled with weak sales volume due to the recession, are the main causes of the financial distress experienced by business today. A good deal of debt was taken on in recent years, on the assumption that persistent high inflation would make it possible to repay fairly painlessly. But sales volume has slumped, and the slowdown of inflation has dampened selling prices; yet interest rates have not declined very much. Consequently, many businesses find themselves in trouble, and the choice for many has been bankruptcy. The 1979 revision of the bankruptcy laws, which makes filing easier, has also helped to raise the number of firms taking this route.



Failure Rate

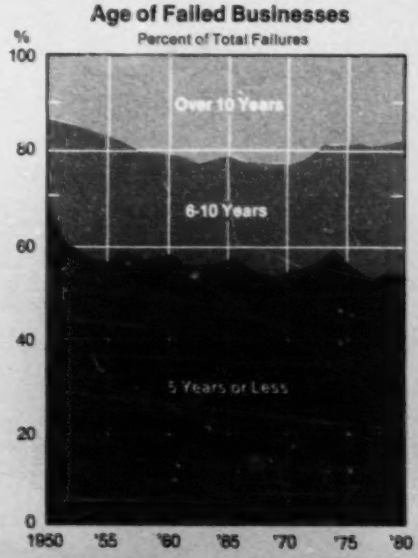
Failures per 10,000 Concerns



The failure rate per 10,000 concerns, as tallied by Dun and Bradstreet, has climbed from a low of 24 in 1978 to 42 in 1980, and an estimated 62 in 1981. The 1982 rate is expected to reach 80 per 10,000, the highest since 1933, when the failure rate hit a high of 100 per 10,000. Conditions are also bleak in sectors not covered by Dun and Bradstreet. The Federal Deposit Insurance Corporation reports that a total of 17 banks have failed so far in 1982—the highest number since 1942, when 23 banks went under during the entire year—and that the farm sector is known to be in trouble. Farmers are usually heavy bor-

Age of Failed Businesses

Percent of Total Failures



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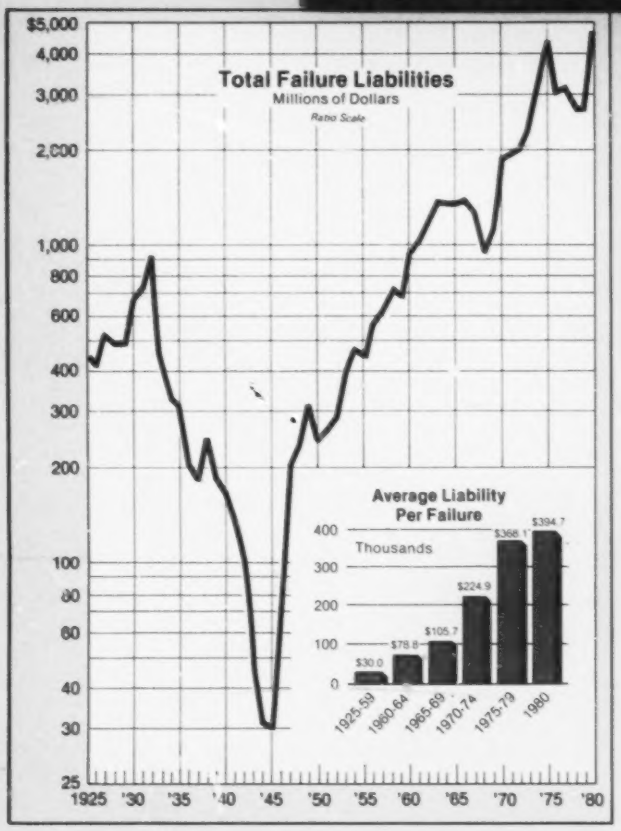
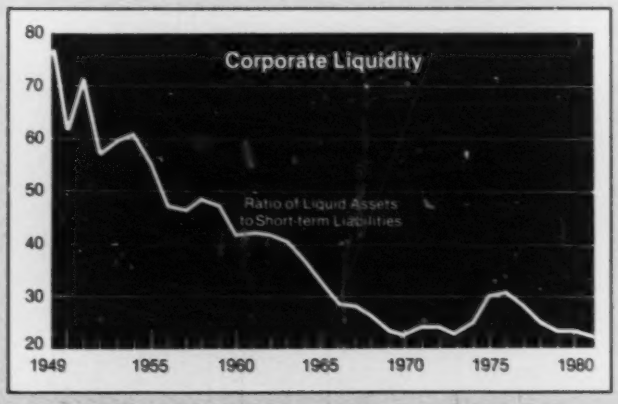


rowers, and they are finding it increasingly difficult to finance new crops.

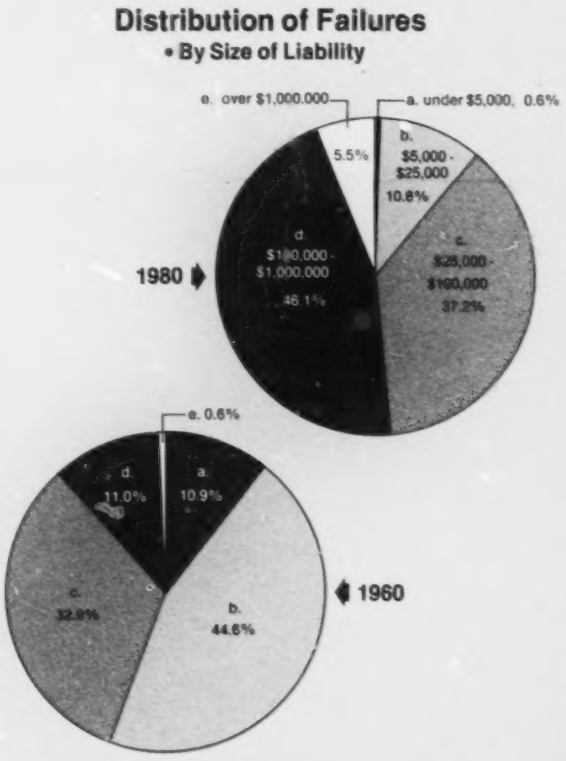
In absolute terms, the number of failures tallied by Dun and Bradstreet has risen from 11,000 in 1980 to an estimated 17,000 in 1981, with forecasts for 1982 running as high as 26,000. The onset of economic recovery will not immediately alleviate the situation, since the number of failures tends to rise for almost a year following the beginning of an upturn.

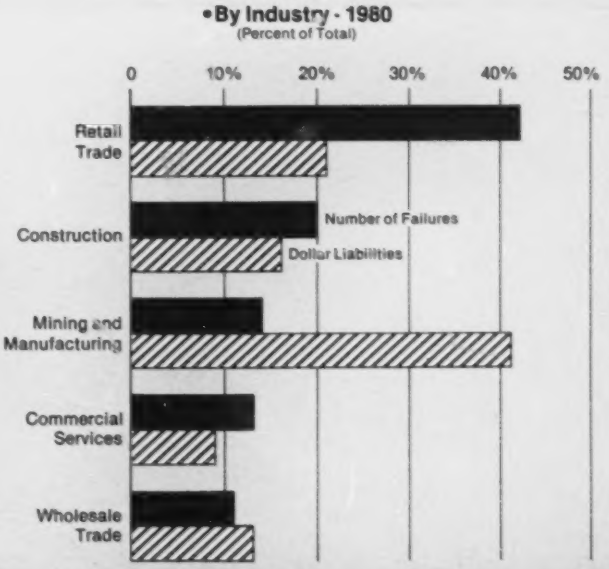
The number of new businesses incorporating annually in the United States has almost tripled over the past 15 years: from 200,000 to almost 600,000. But, while several hundred thousand firms are started every year, an almost equal number are discontinued or sold. A majority of these, for reasons ranging from bad health

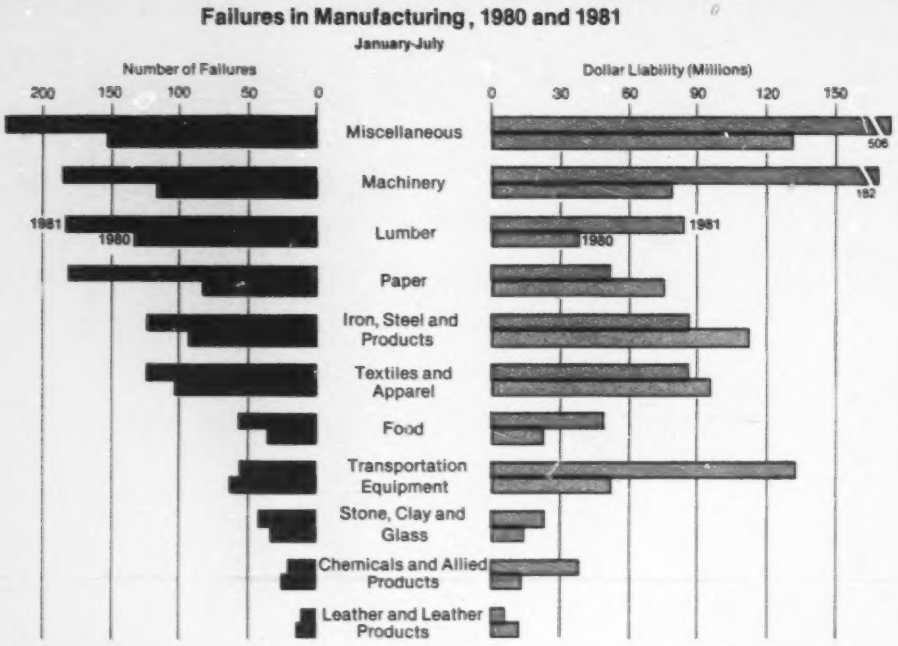


to insufficient profits, just pay off their creditors and close their doors, or are sold to new owners. Some companies go bankrupt and are liquidated under Chapter 7 of the Federal Bankruptcy Act, while others file for shelter under Chapter 11 and remain in business while a plan for debt repayment is drawn. According to the Dun and Bradstreet definition, only companies involved in court proceedings or voluntary actions that involve loss to creditors are considered failed. Failures thus represent only a small percentage of total discontinuances.

Failures in banking are quite different in nature from

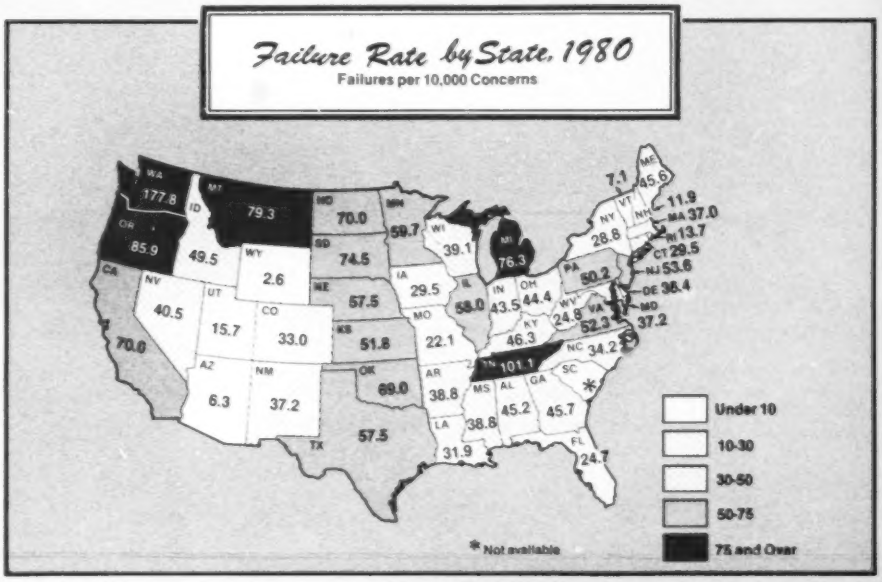


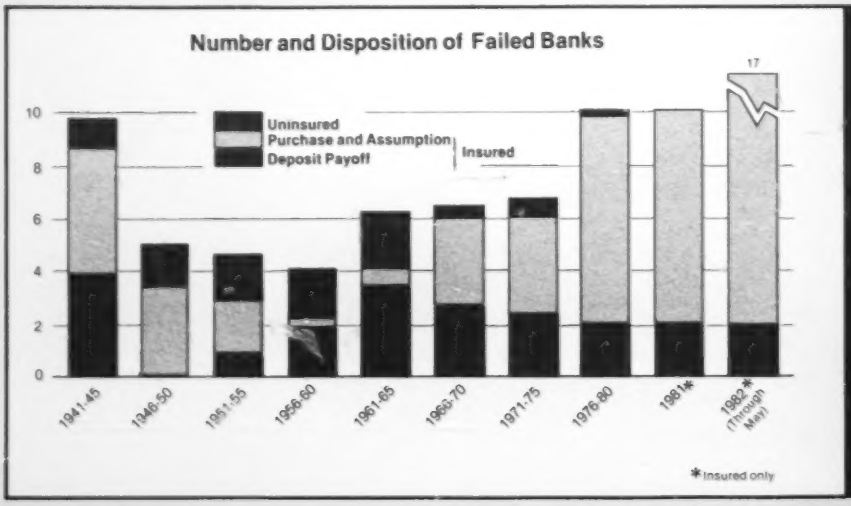


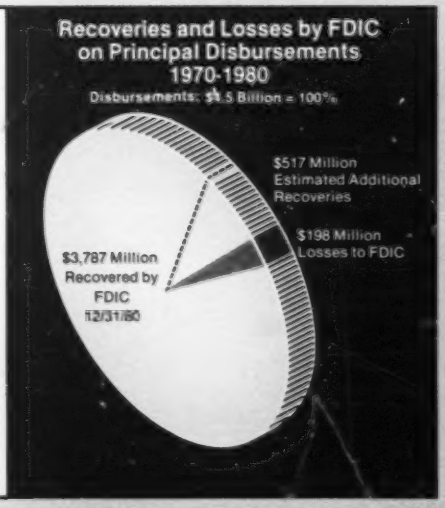


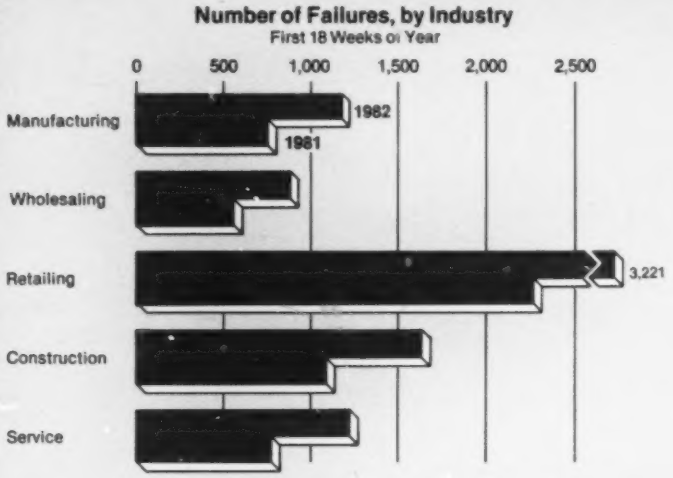
($100,000 at present). Before the establishment of the FDIC in 1933, bank failures occurred in astonishing numbers. In the 1920's, an average of 588 banks failed in each year; between 1930 and 1933, over 9,000 banks suspended operations with a loss to depositors of $1.3 billion.

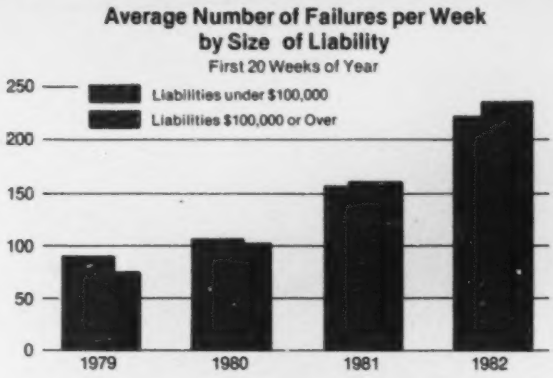
Total liabilities of failed businesses, as tallied by Dun and Bradstreet, are at an all-time high. From $2.7 billion in 1979, they rose to $4.6 billion in 1980, and reached $3.6 billion through the first seven months of 1981 (compared with $2.4 billion for the corresponding period in 1980). Less than 12% of all failing companies had liabilities of those in other businesses. In nonfinancial business, only creditors or the firm itself can initiate bankruptcy proceedings; in banking, the chartering authority, which is neither a creditor nor an investor in a bank, is empowered to declare a bank insolvent. The next step is either deposit payoff (liquidation of the bank) or purchase and assumption (merger into a sound institution). The number of failed banks is somewhat understated, since emergency mergers are often arranged before the acquired bank actually fails. In cases of insured banks, the FDIC guarantees each depositor the amount of his or her account up to the insurance limit

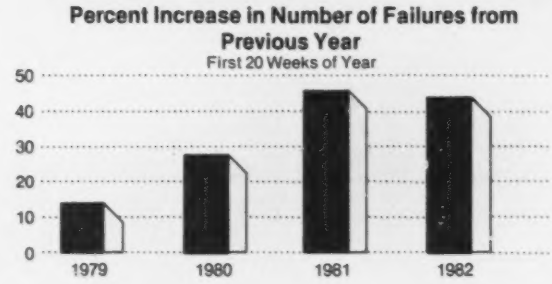





Recoveries and Losses by FDIC on Principal Disbursements 1970-1980
Disbursements: $3.5 Billion = 100%
$517 Million Estimated Additional Recoveries
$198 Million Losses to FDIC
$3,787 Million Recovered by FDIC 12/31/80





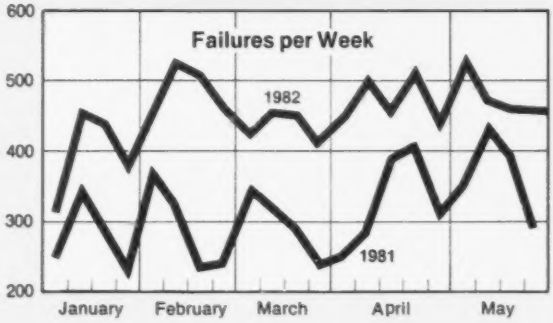


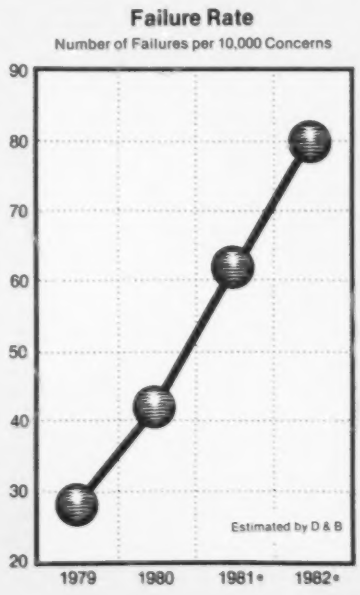
more than $100,000 in 1960, while over half of all companies fall in this category today. Mining and manufacturing constitute the largest single failure category in terms of dollar liabilities—over 40%—although these industries account for only 12% of the total number of failures. Retail businesses, which are usually small, accounted for 40% of the number of failures in 1980, but their liabilities were only 20% of the total.

The latest trends indicate that, while failures in all industries are up this year, the manufacturing sector is being affected more than previously. The number of failures in manufacturing was up 58% during the first 18 weeks of 1982 from the comparable period last year. The number of failures with liabilities of over $100,000 is also up—53% during the first 20 weeks—while those with liabilities under $100,000 are up 45 percent.

Eva Culen

Sources: Dun & Bradstreet; Federal Deposit Insurance Corporation; Federal Reserve Board; The Conference Board.





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U.S. Manufacturing Industry

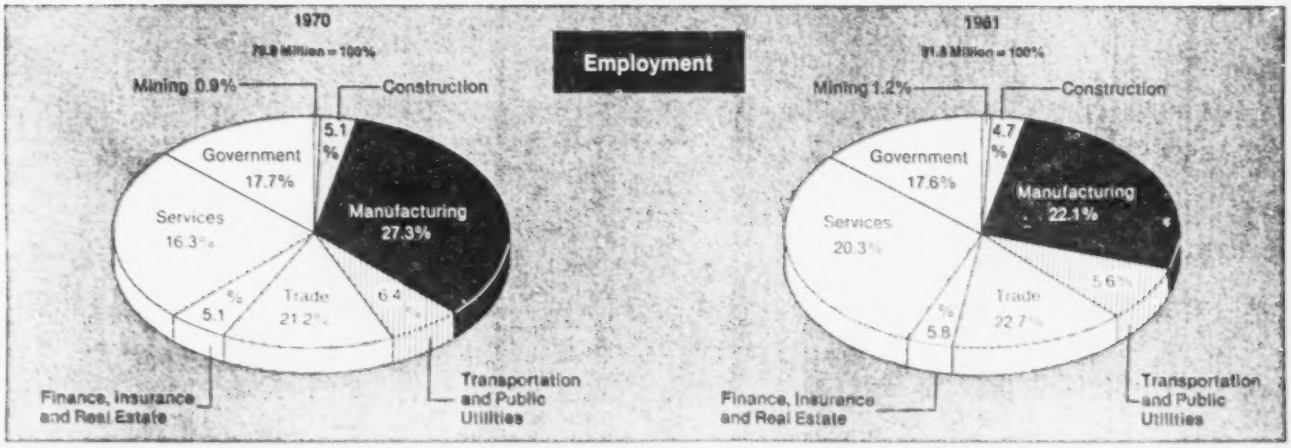
Economic Road Maps

Nos. 1930-1931

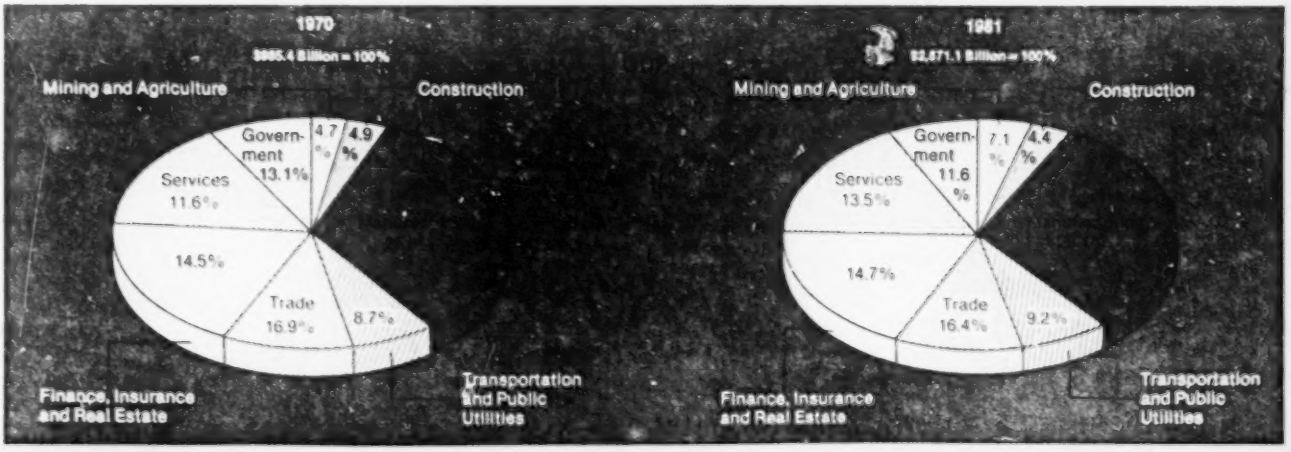
July, 1982

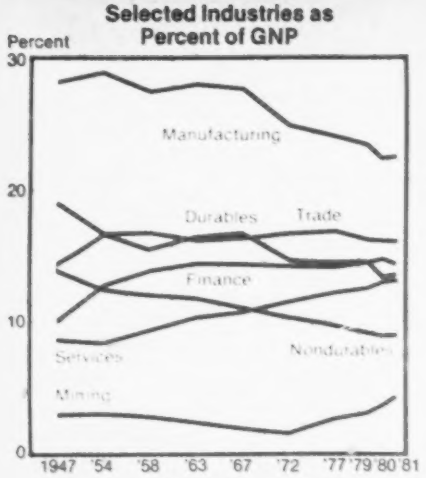
The United States may be shifting to a service-oriented economy, but manufacturing remains a major sector of the economy. In 1981, manufacturing plants employed 20.3 million persons, or 19% of the civilian labor force of 109 million. Gross-product originating in manufacturing—that is, its contribution to the Gross Domestic Product—averages over 23% of total GDP. That share has been declining, however. As recently as 1970, it was more than a quarter. The next largest sector is wholesale and retail trade combined, generating over 16% of GDP.

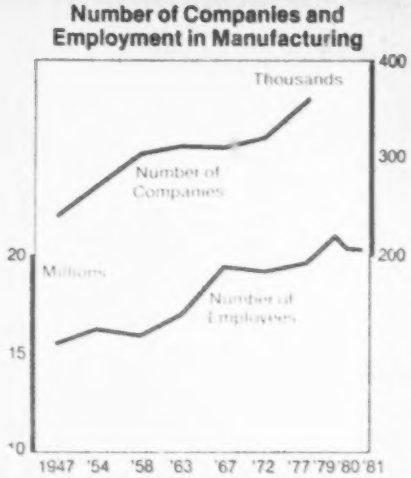
Industry Distribution of Nonfarm Employment and Gross Domestic Product

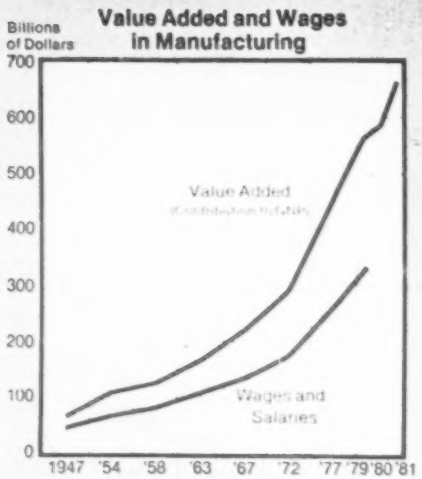


Percent Distribution of the Companies in Selected Nonfarm Industries 1977

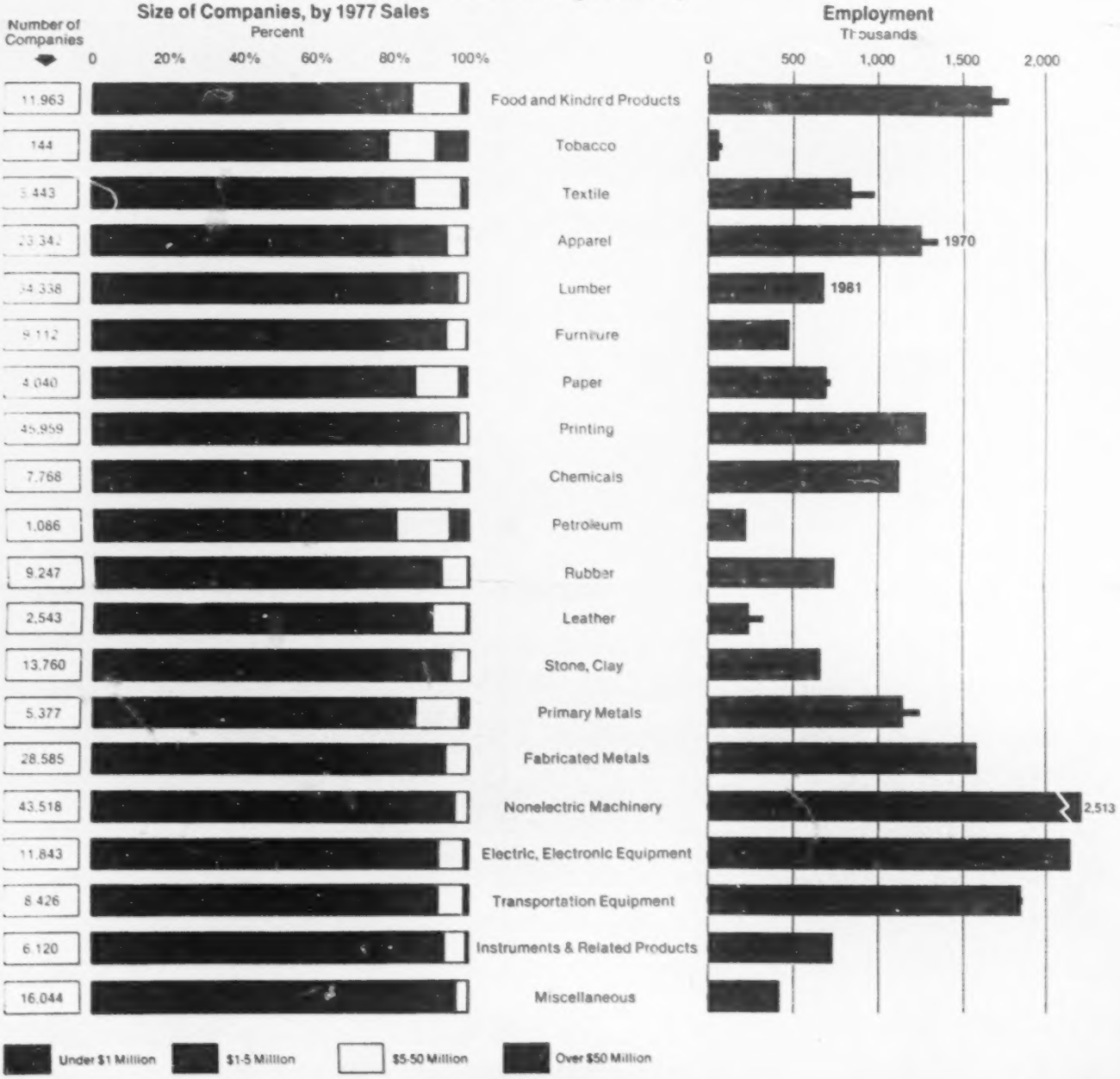


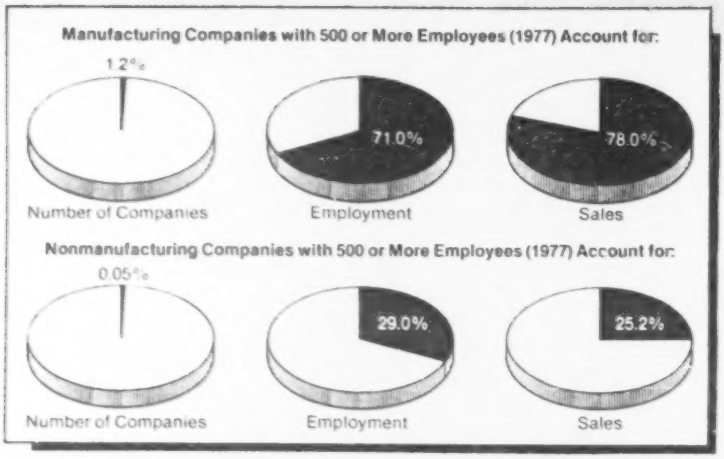






Manufacturing Industry:





The manufacturing sector added 1.7 million jobs between 1970 and 1979, but lost 870,000 during the past two years for a net gain of 800,000. Employment trends differ considerably among various manufacturing industries. Jobs in leather manufacturing fell 27% from 320,000 to 233,000 and employment in the tobacco and textile industries declined by about 15 percent. On the other hand, employment in the instruments industry rose by 36% and nonelectrical machinery and rubber industries each gained over 27 percent.

According to the 1977 Census Bureau Enterprise Statistics, the great majority of manufacturing companies have sales of under $5 million.

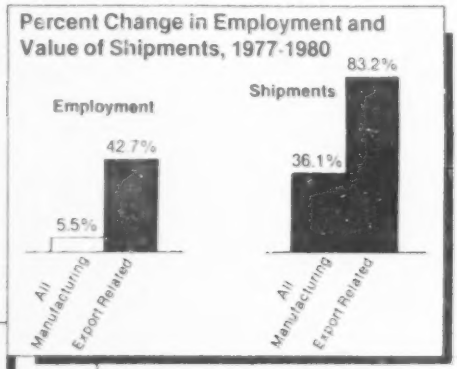
In 1981, the states with the largest numbers of manufacturing workers were California with 2 million, followed by New York (1.4 million), Pennsylvania (1.3 million), Ohio (1.2 million), and Illinois (1.1 million). Texas, by adding over 200,000 manufacturing jobs since 1970, has joined the over-1-million category; Michigan, which lost 140,000 jobs, dropped out of the group. In terms of importance to local economies, manufacturing employment is still concentrated in the northern states, but a number of states in the South now have over 25% of their employment in manufacturing. North Carolina and Connecticut with 34% have the highest ratio of manufacturing employment in the country.

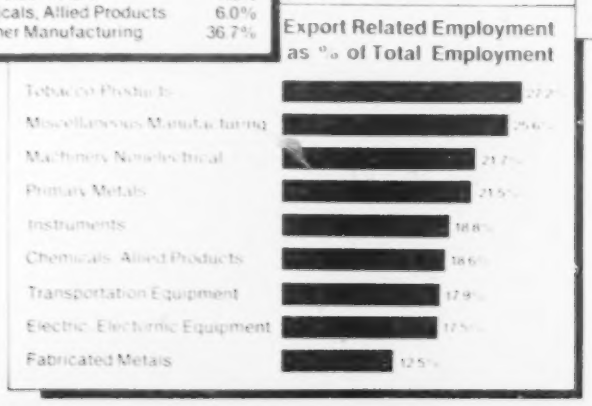
Export trade is becoming a major source of growth for manufacturing industry, in terms both of employment and of shipments. In 1980, there were some 4.8 million jobs related to the export of manufactured goods—2.8 million in manufacturing plants and 1.9 million in nonmanufacturing activities. Between 1977 and 1980, 79% of all new manufacturing jobs were export related. Value of manufactured products exported in 1980 was $155.1 billion.

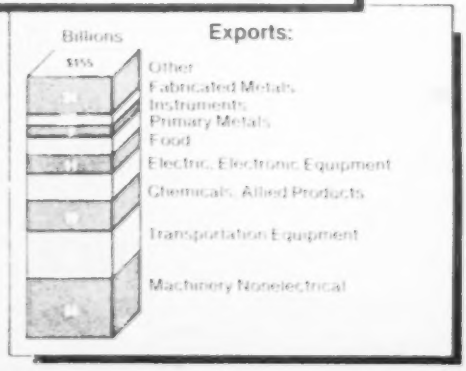
Eva Culen

Source: U.S. Department of Commerce; U.S. Department of Labor; The Conference Board.

Manufacturing and Exports, 1980



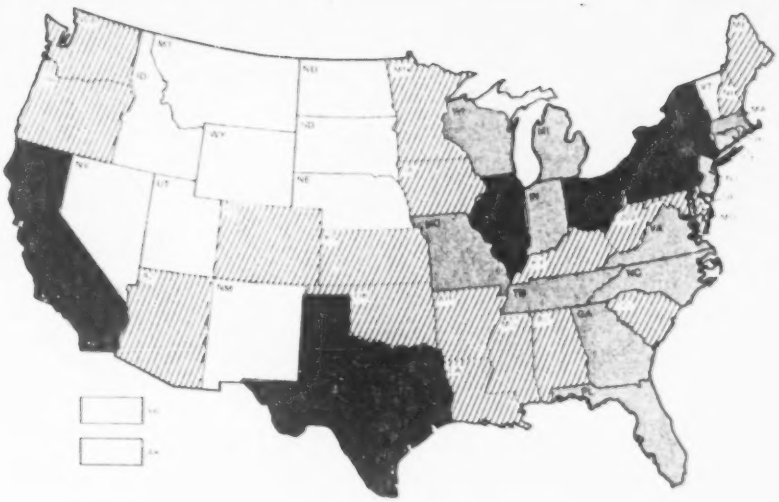


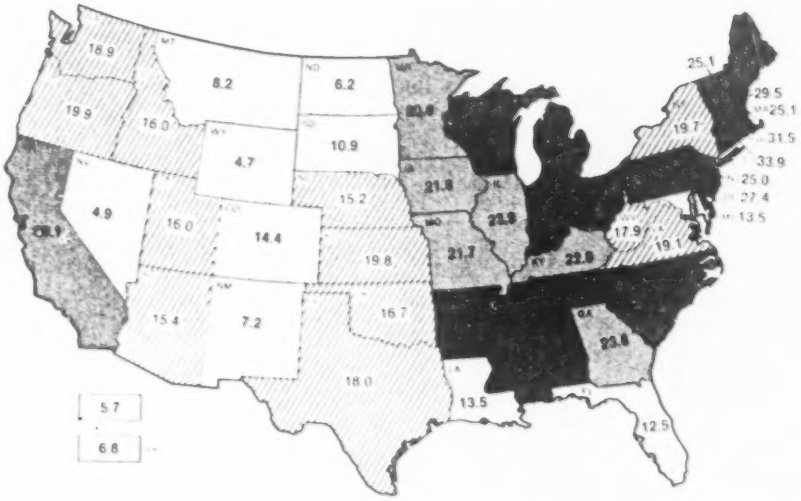


Manufacturing Employment 1981

Number of Persons

- 1 Million & over
- 400,000-1 Million
- 100,000-400,000
- Under 100,000



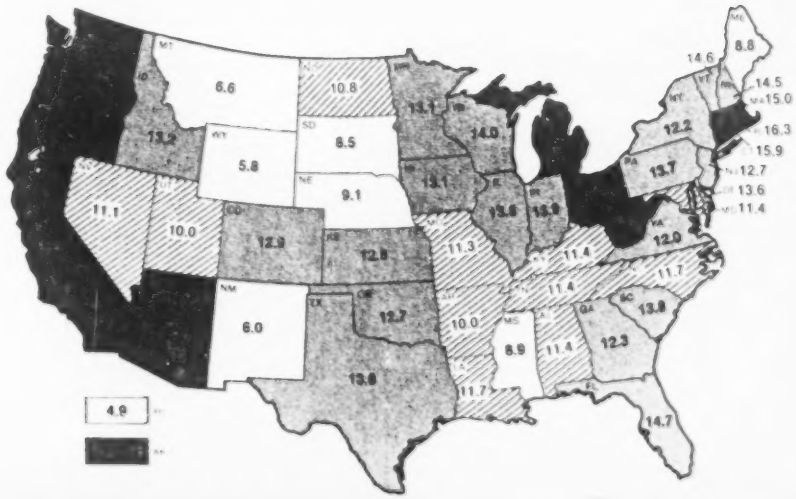


Manufacturing Employment as Percent of Total Employment 1981

- 25% & over
- 20%-24.9%
- 15%-19.9%
- 0-14.9%

Manufacturing Export-Related Employment as Percent of Manufacturing Employment 1980

- 15% & over
- 12%-14.9%
- 10%-11.9%
- 0-9.9%



ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director

Prices for Quantities of this chart will be supplied on request to Information Service.

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Productivity: Trends and Comparisons

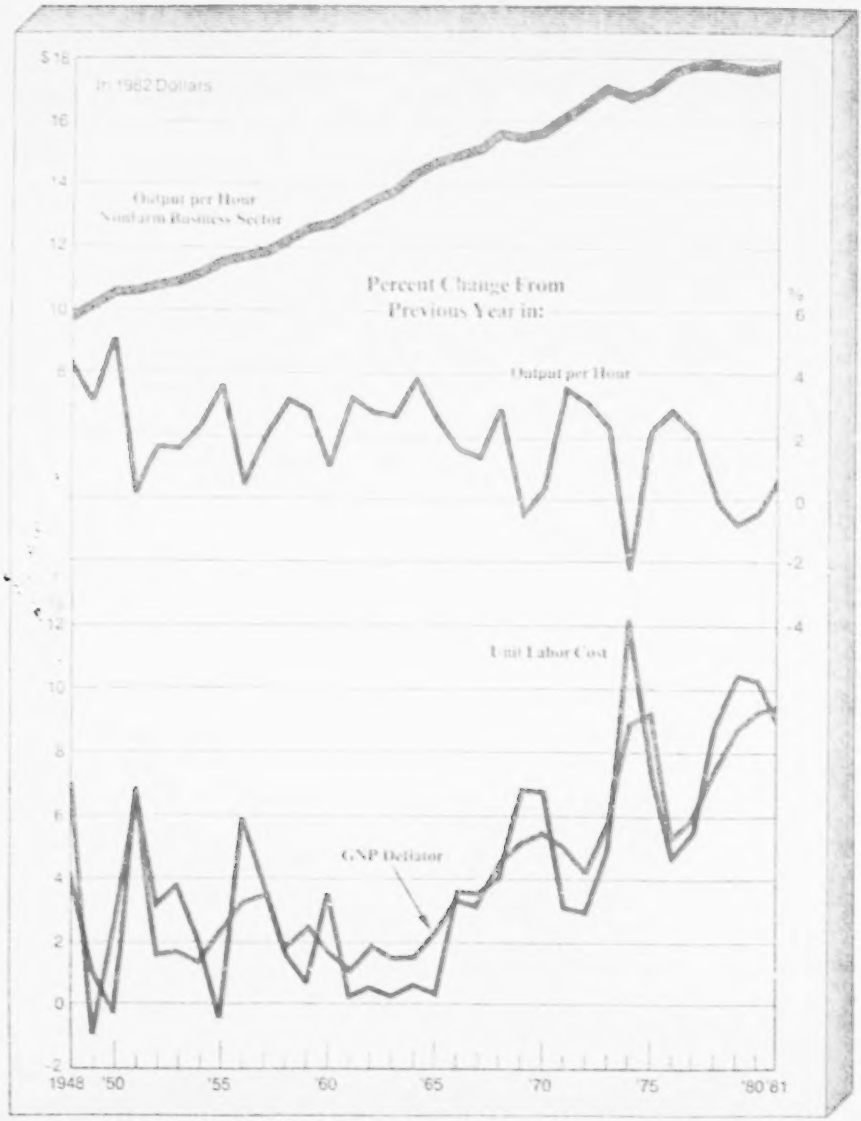
Economic Road Maps

No. 1932-1933

August, 1982

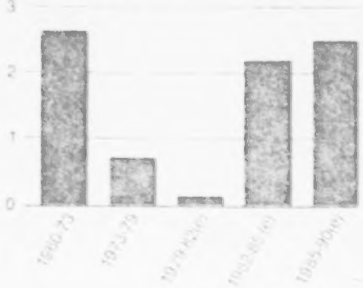
The rate of productivity growth is closely involved with two central goals of our economy—raising the living standard and controlling inflation. If average labor productivity rises at about the same pace as average compensation, the average labor cost per unit of product will be stable. And if the shares of national income accruing to labor and to capital remain unchanged, prices will be stable. The rate of increase in productivity has been slowing over the last two decades in the United States, an experience shared with other major developed countries. This has translated directly into a slower rise in the living standard, and has been a factor in the speedup of inflation. There is a reasonable expectation, however, that productivity growth in the United States will improve significantly in the 1980's.

Labor Productivity and Inflation



Projected Growth in U.S. Labor Productivity

Average Annual Percent Change

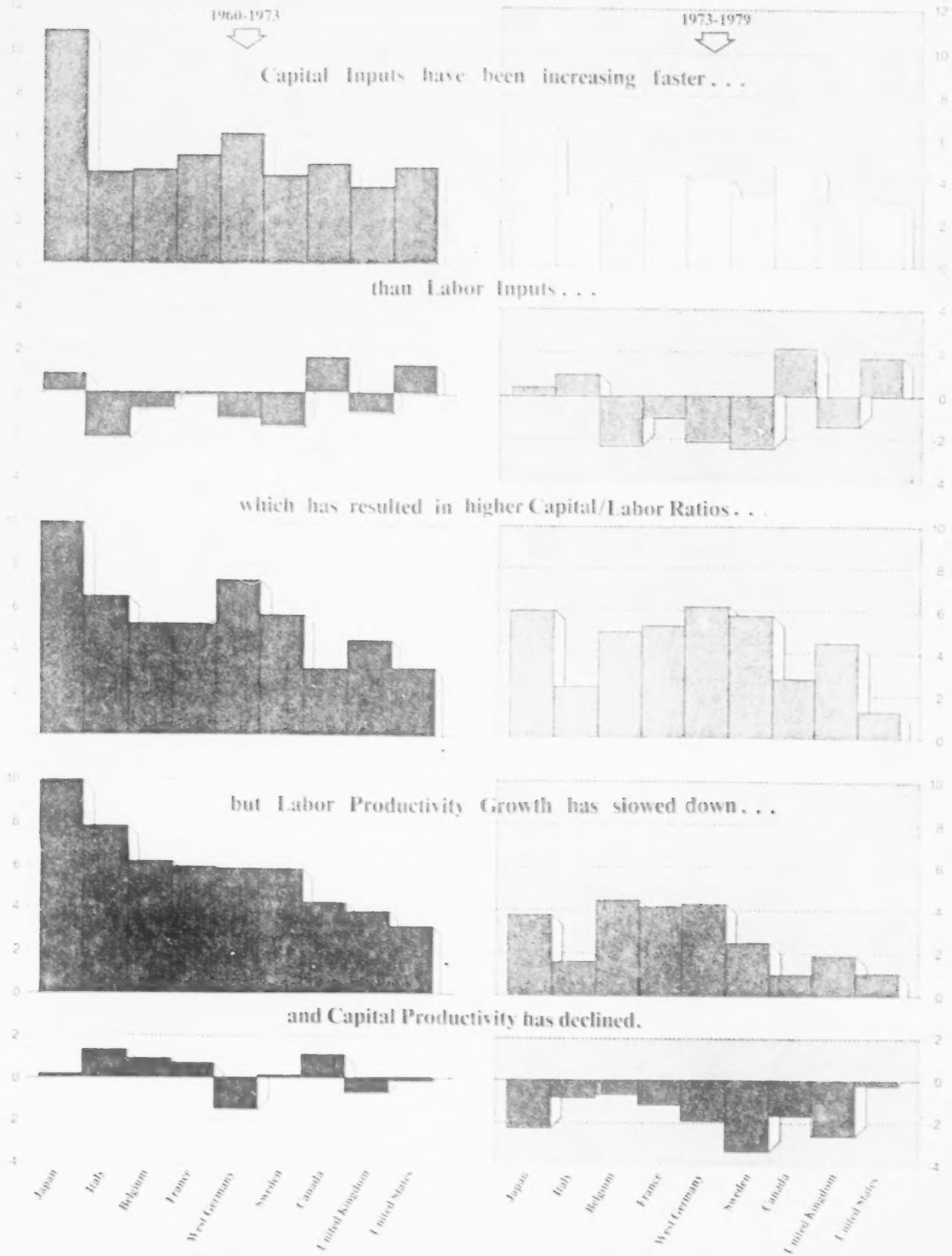


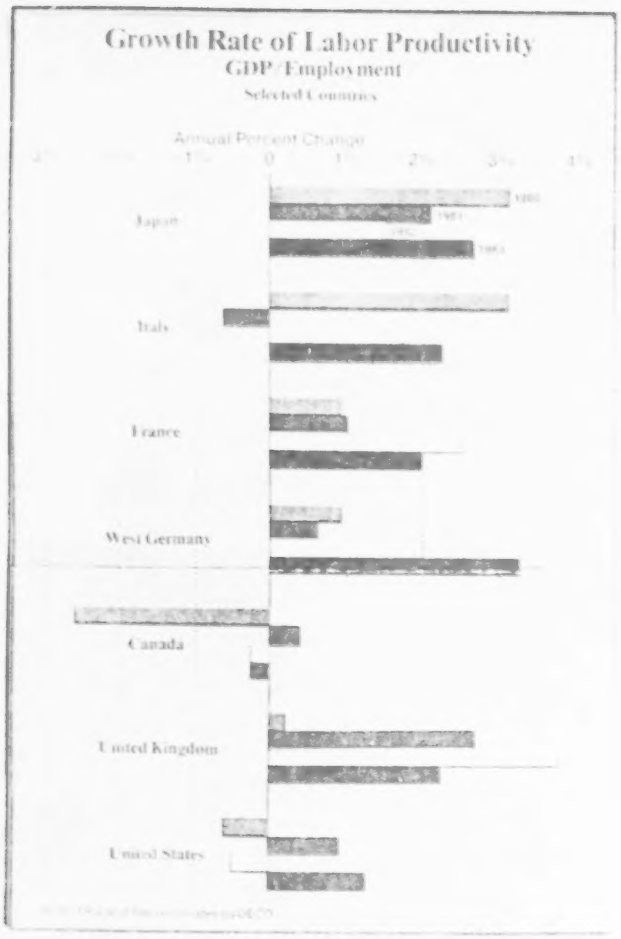
There are several methods of calculating productivity, but all are essentially the ratio of some measure of output to some measure of input. Changes in these ratios reveal changes in the effectiveness of production factors and the efficiency with which they are used in the production process. The meaning of a particular ratio depends on how the output and inputs are defined. Use of only one factor —labor or capital—results in what is really just a partial productivity measure for that factor. Although this is the common procedure, total factor productivity can be obtained by relating output to a weighted combination of inputs.

The chart on page 2 shows that capital input rose more slowly in the 1973-1979 period than in the 1960-1973 period in the United States as well as in several other major developed economies. In

Productivity Comparison

Average Annual Percent Change
Selected Countries





both the earlier and later periods, labor input, measured in terms of worker hours, rose more slowly than capital input. Due to higher population growth in North America, the hours measure increased faster in Canada and the United States than elsewhere.

These data infer a rise in the capital/labor ratios of the eight countries over the last two decades. However, the rise in the ratios was slower in the later period because the growth rates of capital input decreased, and the growth rates of labor input increased in Italy, Canada and the United States. The slowdown in labor productivity in the 1970's was related to the slower rise in the capital/labor ratios of the surveyed countries.

While explanations for the slowdown of productivity growth are numerous, many experts point to a decline in the flow of services from capital inputs. Modern plants and machinery have become increasingly more complex and complicated—therefore requiring greater maintenance and repair. Further, technological advances have made some equipment—which might otherwise be more than adequate for production use—effectively noncompetitive with other newer, more efficient machinery. In other words, there has been a rise in the rate of actual and technological obsolescence of capital.

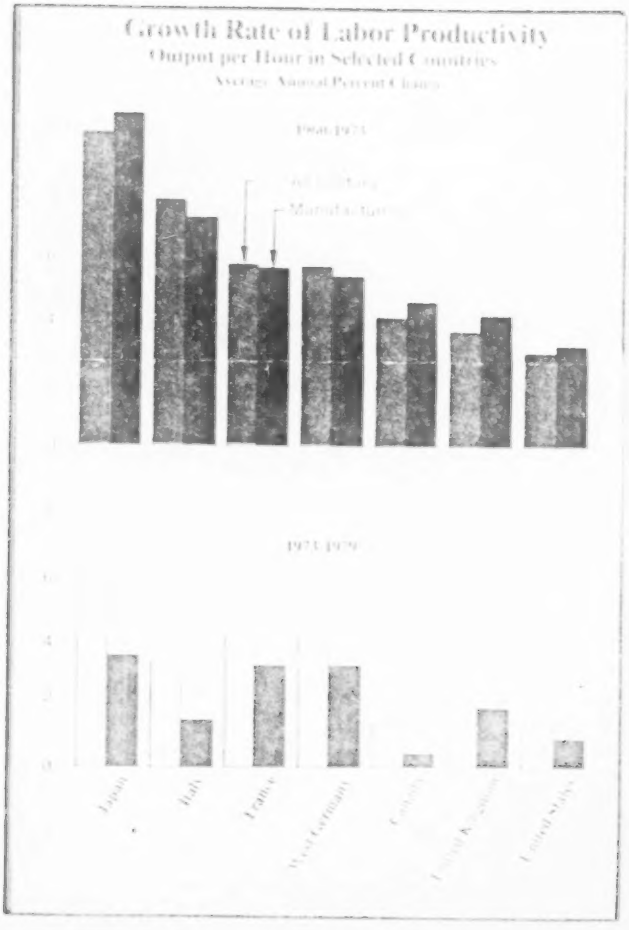
The slowdown in productivity growth has not generally been matched by a similar slowing in the rise of labor compensation. Hence, there has been an uptrend in average labor cost per unit of output, leading to price increases.

Accelerating inflation has resulted in a shift in household budgets to a greater proportion of spending at the expense of saving. Since consumers are the net savers in the economic system, their reduced savings rate has meant a reduced flow of investible funds in financial markets. Business has been faced with higher prices for new equipment, reduced availability of funds in the lending and equity markets, and a higher rate of capital obsolescence. The tremendous increase in the price of oil have only aggravated this situation. The consequence of all these factors has been a lowered rate of capital investment, which has further diminished productivity growth. In many respects, the has been a vicious circle.

The outlook for the 1980's indicates a possible break in the circle for the United States. The labor force is generally expected to expand at a slower pace during this decade than it did in the last two. This view also assumes a generally lower inflation rate in the 1980's relative to the 1970's. Further, the rate of obsolescence in the 1980's may have less of a constraining impact on the rate of expansion of capital investment. These factors, together with an improved investment environment, may mean a faster rise in the capital/labor ratio in the 1980's. If that is the case, labor productivity could grow at a higher rate in the 1980's than it did in the 1970's.

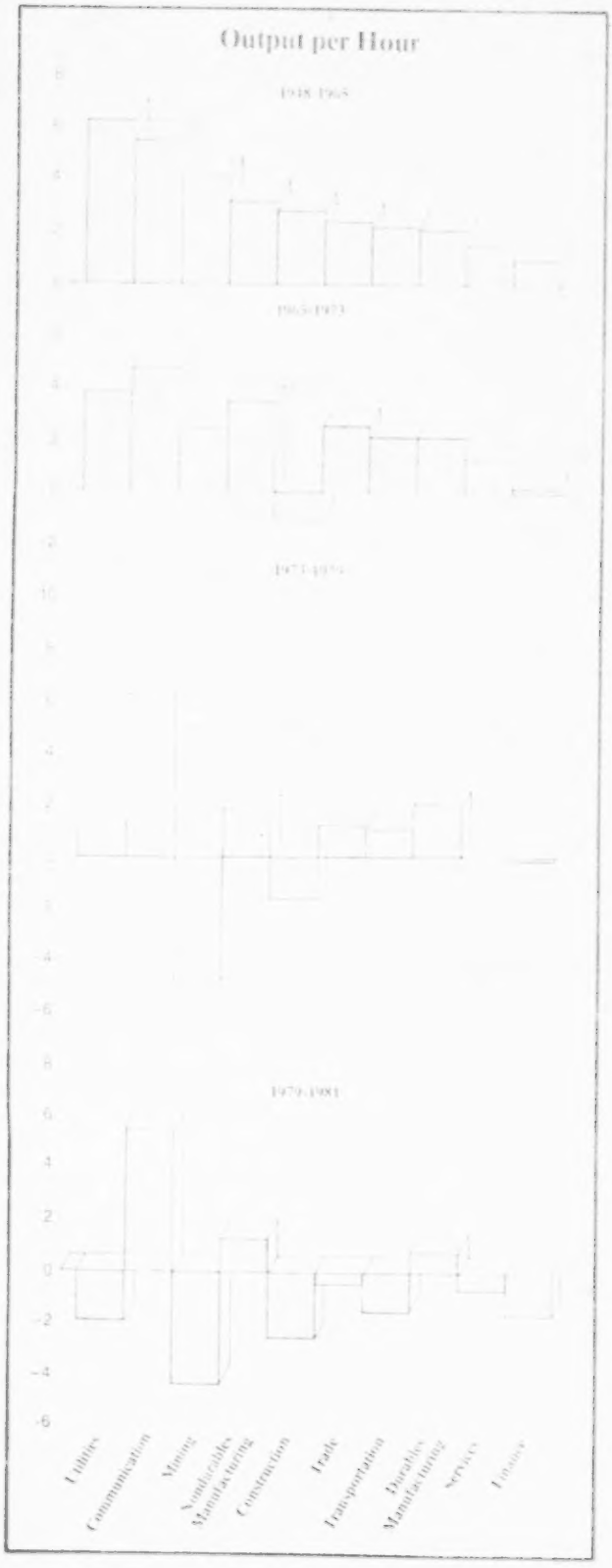
Ken Goldstein

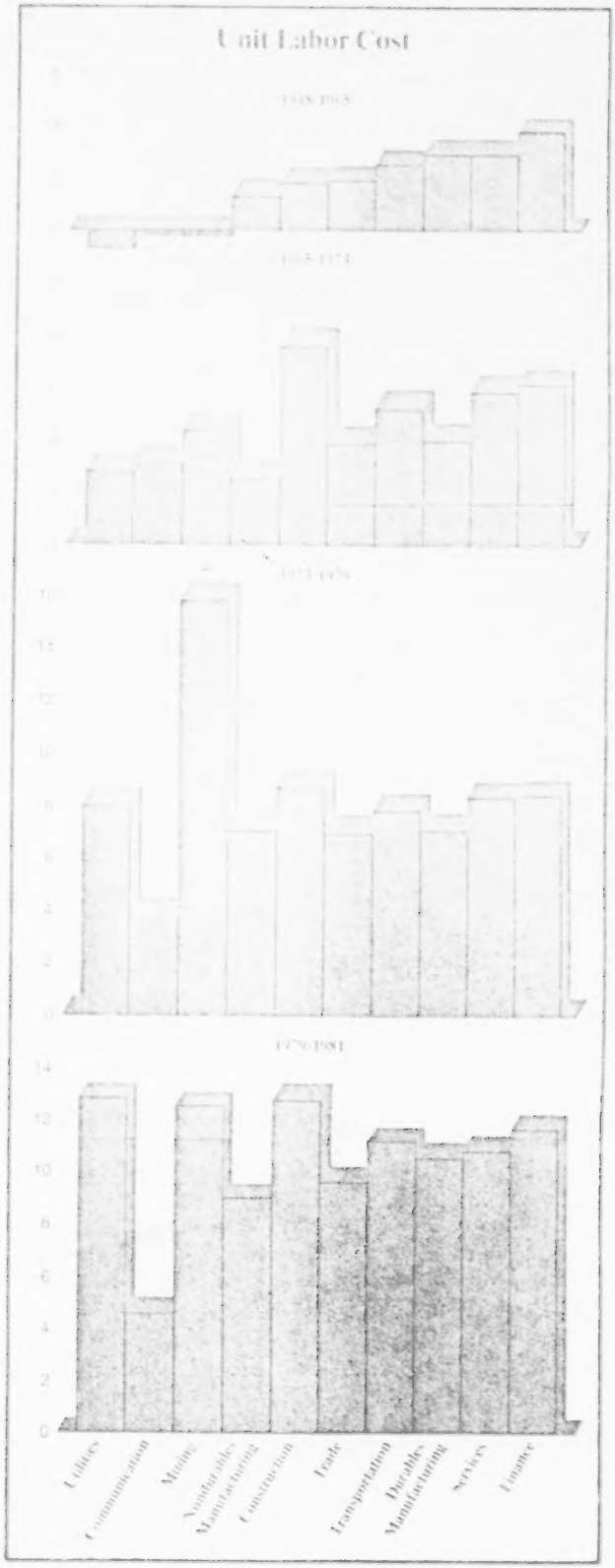
Sources: John Kendrick, "International Comparisons of Recent Productivity Trends," in *Contemporary Economic Problems*, American Enterprise Institute, 1982; Organization for Economic Cooperation and Development; Bureau of Labor Statistics; The Conference Board.



Labor Productivity Growth and Cost Increases by Sector in the U.S.

Average Annual Percent Change





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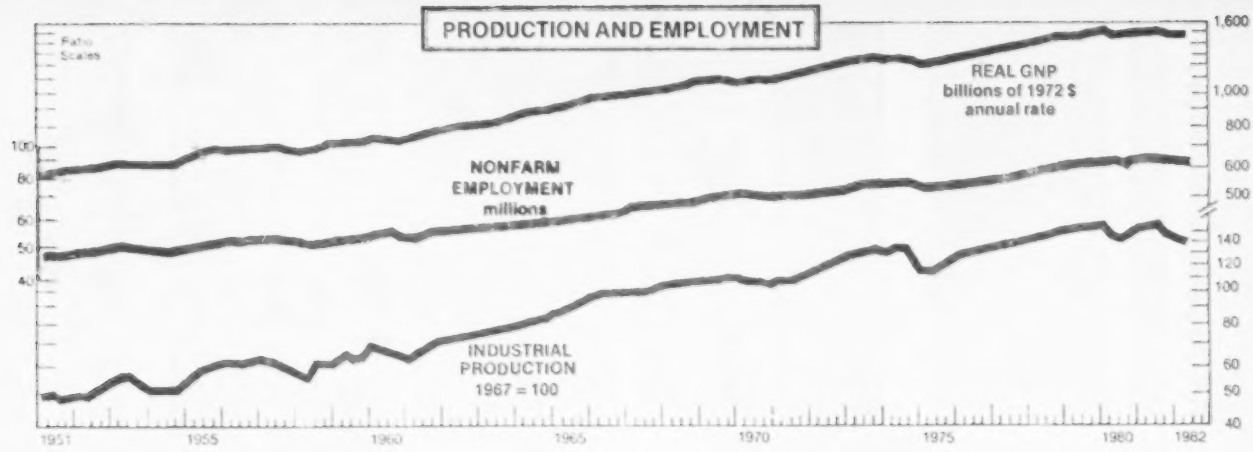
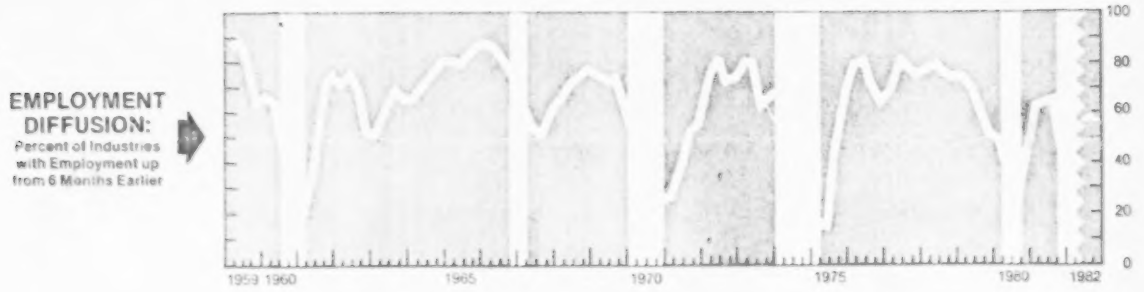
The Recession of 1981-1982

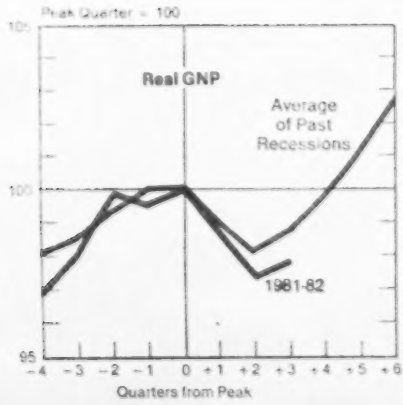
Economic Road Maps
Nos. 1934-1935

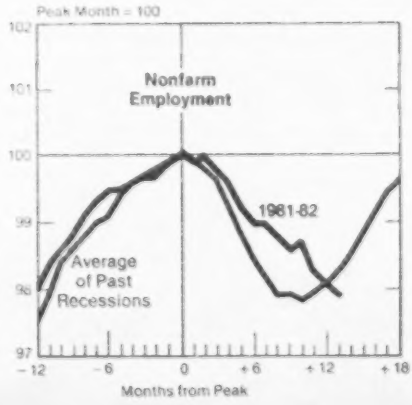
September, 1982

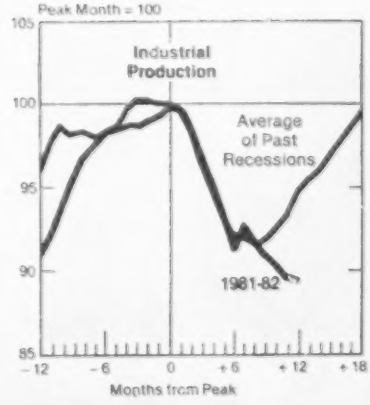
In the Summer of 1981, according to the chronology of the National Bureau of Economic Research, the United States slipped into the eighth postwar recession. The NBER is a private organization that is the generally accepted arbiter of business-cycle timing. The recessions have typically lasted less than a year (page 2). The 1974-1975 slump was longer, but many economists would date the peak at August, 1974, not November, 1973, which would make that a downturn of only seven months. The historical charts on pages 1 and 3 also identify the "quasi-recession" of 1966-1967, which is not included in the NBER chronology. The rebound from the 1980 recession came to an unusually early end. Indeed, the peak occurred in July, 1981, a mere 12 months after the trough, and many measures of economic activity never regained their 1979-1980 highs (page 3). Although the trough of the latest slump has not yet been dated, it has very probably already occurred. However, the forecast consensus is that economic growth in the next year will be only about half as fast as in the first year of a typical recovery.



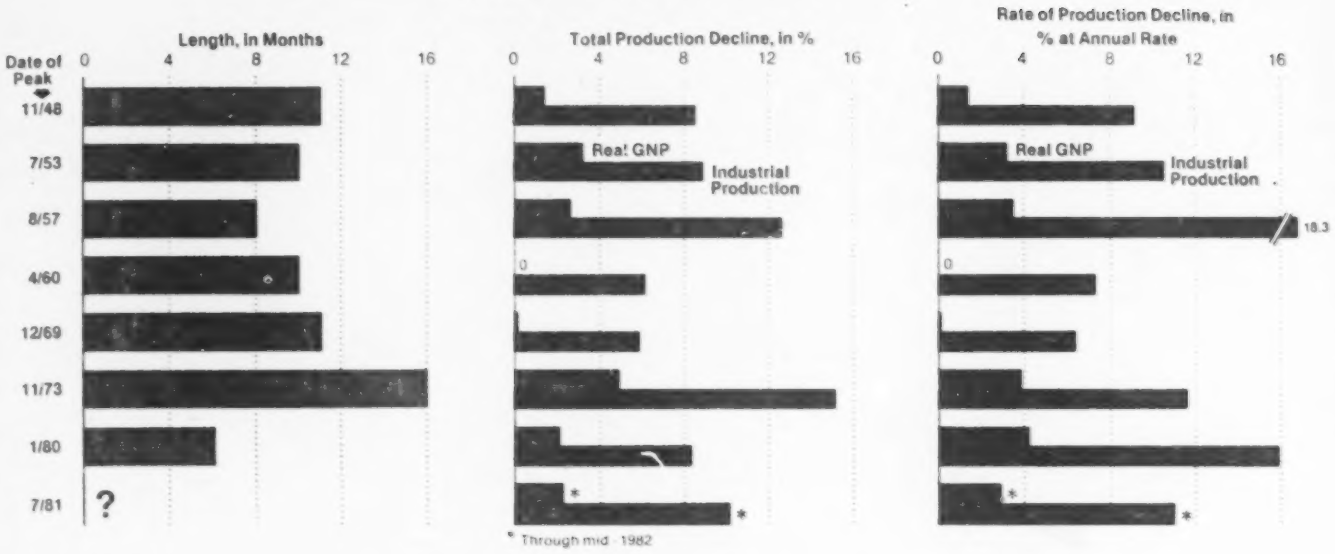




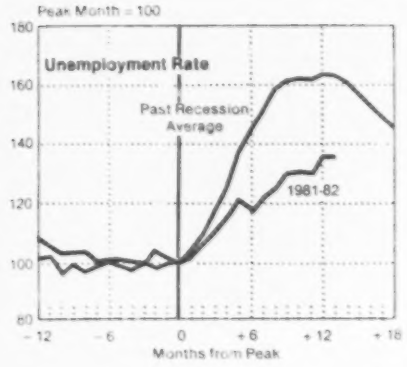


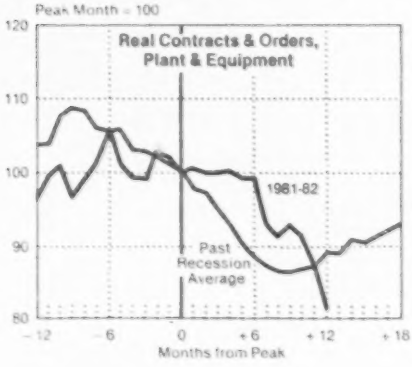


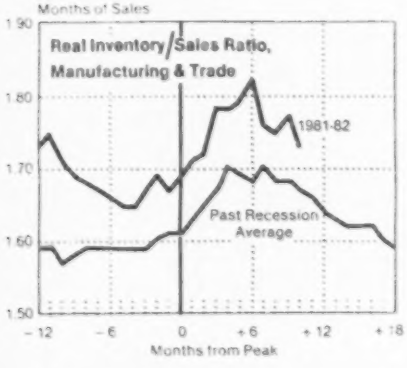
Length and Depth of Recessions

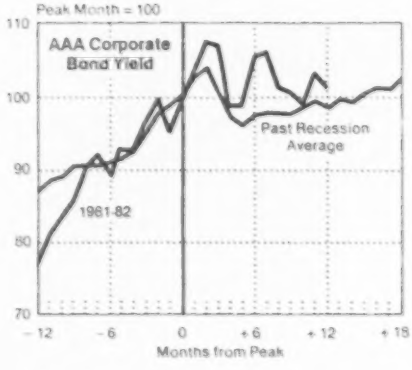


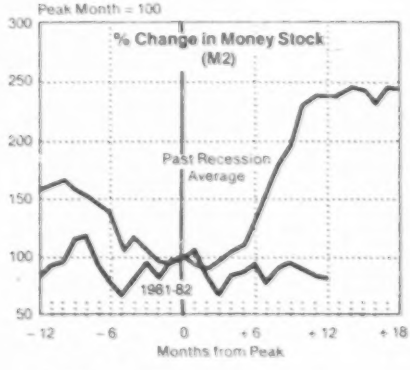
Anatomy of Recession

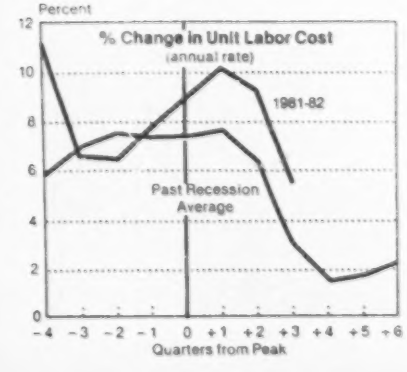


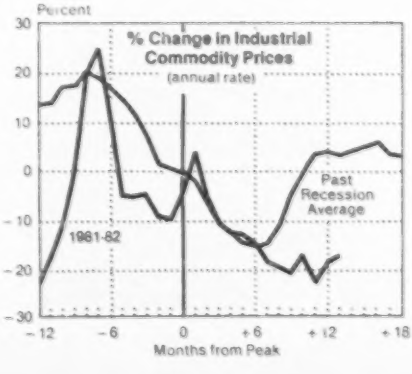


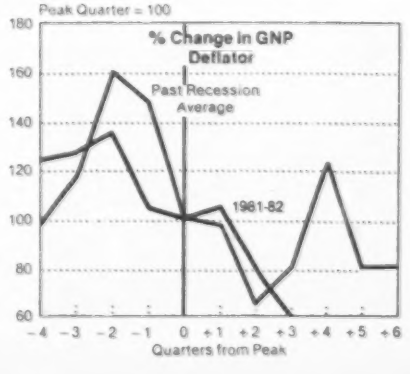




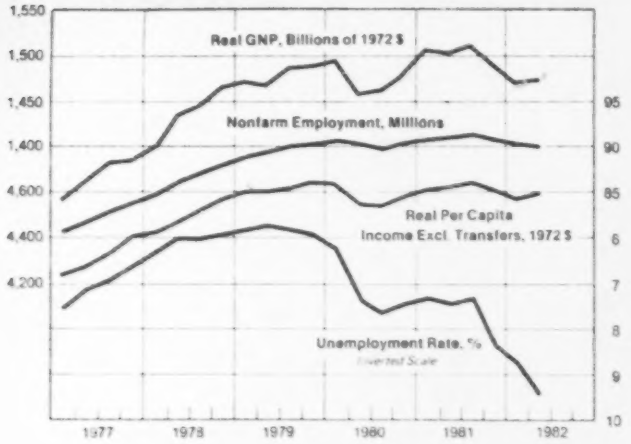


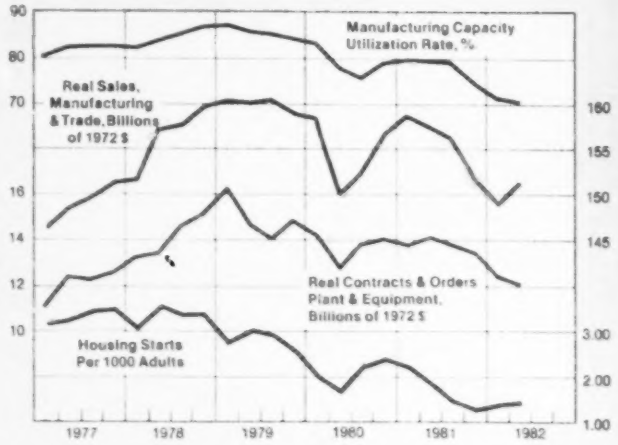






Many Economic Measures Peaked in 1979-1980





The pattern of various economic measures in the 1981-1982 recession has been generally similar to the recession average (charts on pages 1 and 2). However, although the trough has not been dated, it does appear that the latest slump was longer than average. This is probably one reason why the rate of price increase has slowed down more than it typically does (lower charts, page 2). Another significant difference from the typical pattern is that monetary growth did not accelerate sharply once the 1981-1982 recession was underway (page 2). This reflects the policy of starving inflation out of the system by not allowing enough money growth to support it. Reflecting the monetary stringency, credit use by sectors other than the Federal Government failed to rebound after the 1980 recession as it usually does (chart below at right).

Lora S. Collins

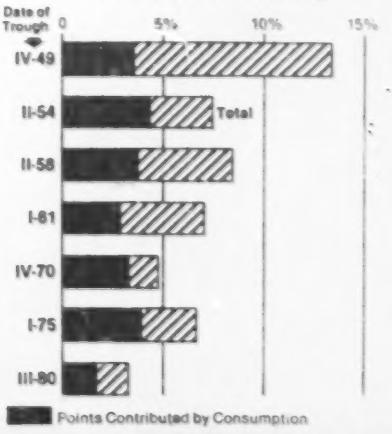
Sources: U.S. Departments of Commerce and Labor; Federal Reserve Board; National Bureau of Economic Research; The Conference Board.

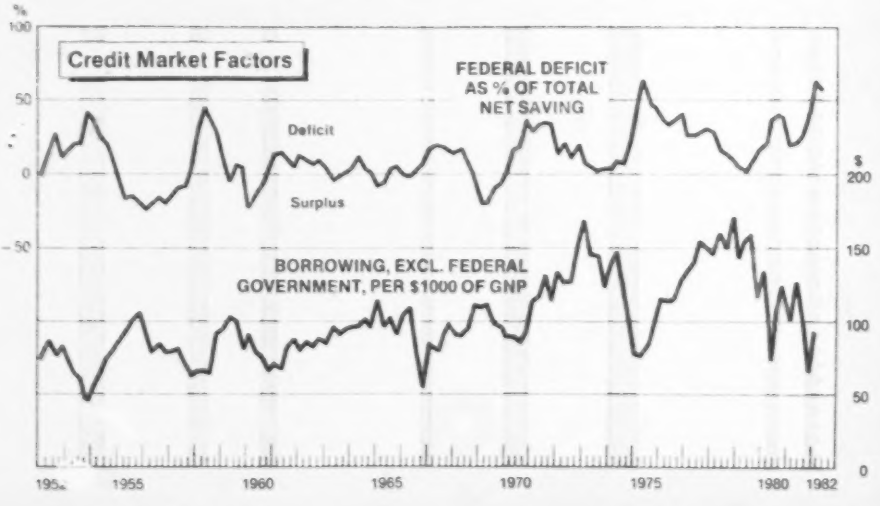
Recession's Industry Profile:
Annual Rate Percent Change in Employment from 1980-1981 High to 1982 Low

Nonmanufacturing		Manufacturing			
Services	2.4*	Food	—2.5	Transportation Equipment	— 9.5
Finance, Insurance	0.9*	Electrical Equipment	—4.8	Fabricated Metals	— 9.7
Retail Trade	0.7*	Petroleum	—5.4	Textiles & Apparel	—10.2
State & Local Government	— 1.5	Paper	—5.9	Nonelectrical Equipment	—11.0
Wholesale Trade	— 1.8	Stone-Clay-Glass	—7.1	Lumber	—15.4
Federal Government	— 1.9	Rubber	—7.7	Primary Metals	—15.9
Transportation & Utilities	— 2.1	Furniture	—8.0	All Other	— 3.3
Construction	— 6.6				
Mining	—12.2				

*No decline; % change is from June 1981 to June 1982.

Change in Real GNP in the First Year of Recovery

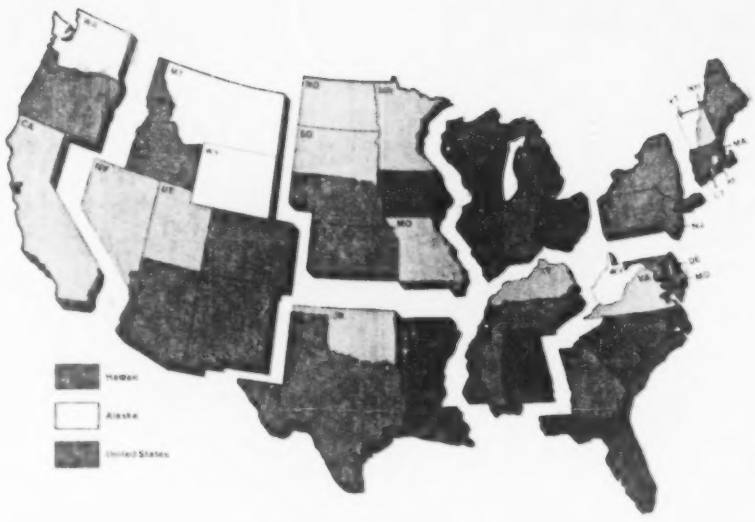


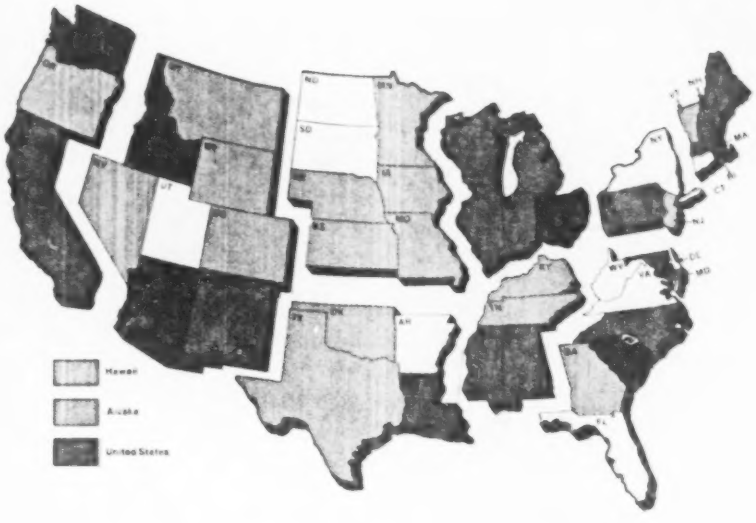


Change in Growth Rate of Nonfarm Income

Growth Rate from 1981-III to 1982-I
Compared with Rate from 1981-I to 1981-III

- Growth Rate Accelerated
- Growth Rate Slowed by less than One Fourth
- Growth Rate Slowed by One Fourth to One Half
- Growth Rate Slowed by More than One Half





Change in Unemployment Rate

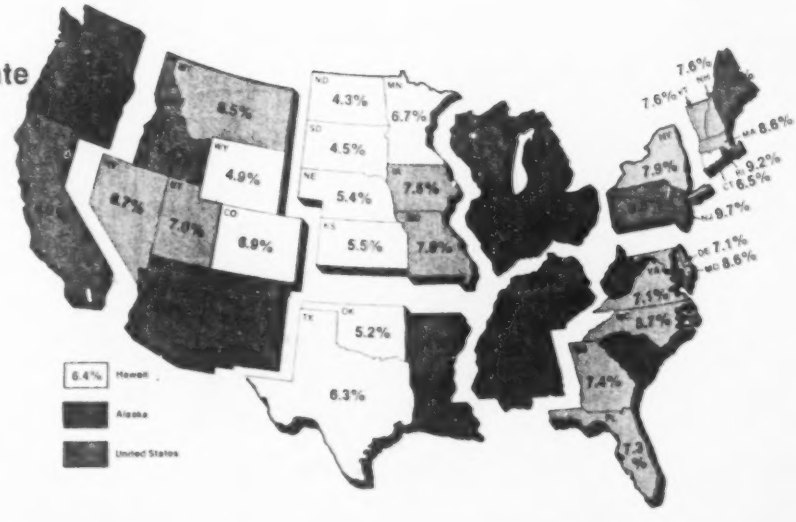
May 1981 to May 1982

- Rate Fell or Rose Less than 1.0 Point
- Rate Rose 1.0-1.9 Points
- Rate Rose 2.0-2.9 Points
- Rate Rose 3.0 Points or More

Unemployment Rate

May 1982

- Under 7.0%
- 7.0% to 8.9%
- 9.0% to 9.9%
- 10.0% and Over



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